INSTITUTE OF LAW RESEARCH AND REFORM
EDMONTON, ALBERTA

PROTECTION OF TRADE SECRETS

REPORT FOR DISCUSSION No. 1

February, 1984

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INSTITUTE OF LAW RESEARCH AND REFORM

The Institute of Law Research and Reform was established January 1, 1968, by the Government of Alberta, the University of Alberta and the Law Society of Alberta for the purposes, among others, of conducting legal research and recommending reforms in the law. Funding of the Institute's operations is provided by the Government of Alberta, the University of Alberta, and the Alberta Law Foundation.

The Institute's office is at 402 Law Centre, University of Alberta, Edmonton, Alberta, T6G 2H5. Its telephone number is (403) 432-5291.

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INVITATION TO COMMENT

This Report for Discussion sets out the Institute's tentative views for discussion and comment. The Institute will reconsider its views and prepare its final report and recommendations in light of comments received. The reader's attention is drawn to the list of questions contained in Chapter 6. It would be helpful if comments would refer to these questions where practicable, but commentators should feel free to address such questions as they see fit.

Comments should be in the Institute's hands by May 31, 1984. If more time is needed, please advise before May 31, 1984. Comments in writing are preferred. Oral comments may be made to Grant Hammond of Institute counsel.

REPORT FOR DISCUSSION

PROTECTION OF TRADE SECRETS

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CHAPTER 1

INTRODUCTION

a. Purpose and Scope of Report

1.1 The term "trade secret" is used by businessmen and lawyers to describe business or technical information which is kept private by its possessor for the purpose of economic gain. There is no limitation on the subject matter of a trade secret, though the prefix "trade" conveys the notion that the information must somehow be useful or potentially useful within a particular trade or industry. Common examples of trade secrets include recipes or formulas (e.g. the secret recipe for Coke), industrial know how (e.g. an ingenious method of placing liqueurs in chocolate) and strategic business information (e.g. customer lists.)

1.2 In Canada there is presently no single body of law governing the circumstances under which trade secrets are legally protectable. The Criminal Code does not recognise an offence of theft of a trade secret. If someone wishes to bring civil proceedings for an alleged misappropriation of a trade secret, that person must rely upon the law of contract or equity. Under the contract approach, the plaintiff asserts that there is an express or implied term of confidentiality in some contract between him and the defendant with respect to the particular information at issue. The general rules of the law of contract then apply to that claim. In a no contract situation, there are three equity causes of action which may be applicable. The

defendant may have been in a fiduciary relationship with the plaintiff at the relevant time. Trafficking in valuable information learned in a fiduciary capacity is, in general, actionable. A second possibility in equity is the doctrine of breach of confidence. Canadian courts have recognised certain principles of good faith which must be observed in confidential relationships. A third possibility is more problematical. Canadian courts have recognized a doctrine of unjust enrichment. This doctrine enables a plaintiff, in some circumstances, to strip a defendant of gains made through improper activities. Whether, and if so how far, this doctrine extends to protection of trade secrets is not clear on the present authorities.

1.3 These causes of action share two critical characteristics. First, they rest on judge made law. Second, they pre-suppose a course of conduct or dealings between a plaintiff and a defendant prior to the misappropriation which a court can classify in accordance with the established legal taxonomy. In the result, a trade secret is not protected on the theory that it is the plaintiff's property; it receives protection because the kind of relationship required the defendant to act in a particular way.

1.4 There are three major problems with these causes of action, so far as they apply to protection of trade secrets.

(1) It has been assumed, somewhat uncritically, by the legal profession that affording legal protection to trade secrets is a "good thing". Whether this is so, and the relationship of trade secret law to patent and

copyright law has, at least in the Anglo-Canadian legal tradition, received very little attention.

(2) Assuming that legal protection of trade secrets is, in general, a "good thing", the application of general doctrines of law or equity does not necessarily cover all the situations which may arise in practice. As only one instance, the plaintiff and the defendant may not have had any relationship prior to the misappropriation. Industrial espionage per se may not, therefore, be actionable in Canada.

(3) Assuming that a plaintiff can bring a trade secret case within one of the existing causes of action at law or in equity, the remedies available to a plaintiff have been the subject of considerable legal debate and remain somewhat uncertain.

1.5 This Report advances two major propositions.

First, that legal protection of trade secrets, is, in general terms, a desirable objective for the law to pursue. The Report argues that there are sound moral, economic, and practical reasons for this objective. Nevertheless such protection requires careful delineation so as to uphold the public interest in the free flow of information, mobility of labour, and (in certain kinds of cases) the public's "right to know" notwithstanding a claim to legal enforcement of secrecy.

Second, that implementation of this policy objective should be effected in two ways. If contracting parties wish to make

their own arrangements as to the confidentiality of trade secrets, that privilege should remain open to them. Disputes arising under such agreements should continue to be governed by the general law of contract.

1.6 In the absence of an agreement a plaintiff should not be left to struggle to bring a case within the general doctrines of equity. The law should provide a new statutory cause of action and a range of remedies specifically designed for this subject area.

1.7 The Report tentatively recommends the creation of a new statutory tort which would, under certain conditions, give a cause of action against the misappropriation of a trade secret in a no contract case. The creation of a new cause of action of this kind raises difficult and complex issues going to the scope and strength of such a tort, the elements of it, the defences which may be raised by a defendant and the specific relief which should be open to a plaintiff. The Report canvasses various issues arising under these several heads and suggests possible solutions. Part II of the Report contains draft legislation. Since the Report recognises that there may well be legitimate differences of opinion over both the extent of the protection to be granted by the new tort and the most appropriate means of achieving that protection, statutory alternatives are provided with respect to several key matters.

b. The History of this Project

1.8 Trade Secrets have been the subject of three law reform studies in recent years. In the British Commonwealth, there has

been a 1973 Report from the Torts and General Law Reform Committee of New Zealand.[1] In the United Kingdom, the Law Commission recently completed a ten year study entitled Breach of Confidence.[2] Both these studies were an indirect sequel to the 1972 Report of the Younger Committee on Privacy in the United Kingdom.[3] That Committee had rejected proposals that there should be a new cause of action for the protection of privacy, but it suggested that some specific situations might deserve special protection. One of these situations was thought to relate to confidential information. The Younger Committee found the action for breach of confidence to be somewhat uncertain in character and scope and recommended that it be referred to the Law Commission for clarification and legislative restatement. In New Zealand, the Law Revision Commission, inspired in part by the Younger Committee Report, referred the subject area to the above-mentioned Committee.

1.9 In the result, the New Zealand Committee thought that the existing body of judge made law offered adequate protection for trade secrets, and recommended that no legislative action was required. The Law Commission on the other hand, after an exhaustive study of the existing case law, recommended a legislative scheme which would involve the creation of a new statutory tort. This tort would occupy and extend the field hitherto occupied by the doctrine of breach of confidence, and is potentially applicable to <u>any</u> confidential information. The Law

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1 Dept. of Justice, Wellington, New Zealand.

2 Law Com. No. 110.

3 Cmnd. 5012.

Commission's proposals have not, to date, been enacted.

1.10 In the United States, the civil law protection of trade secrets was, until recently, also dependent upon judge made law. The provisions of the First Restatement of Torts, as issued by the American Law Institute in 1939,[4] were very influential and widely adopted by U.S. Courts.[5] However, when that Institute debated the scope of the Second Restatement of Torts, it concluded that trade secrets had become a subject of sufficient importance in its own right that it no longer belonged in that Restatement.[6] If the subject was to be included in a Restatement at all, it was thought that it should receive independent treatment in a separate Trade Practices Restatement. In the meantime, the National Conference of Commissioners on Uniform State Laws had accepted that there was a case for a clear, uniform, legislative solution[7] to trade secret protection, and in 1980, after some twelve years' work, a Uniform Trade Secrets Act was approved and recommended for enactment in all the States.[8] The Uniform Act has been adopted in Arkansas, Delaware, Idaho, Indiana, Kansas, Louisana, Minnesota, North Carolina and Washington. Non-uniform amendments exist in every adopting state

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[4] Restatement of the Law, Torts, Vol. IV, Chap. 36, sections 757-759.

[5] See Milgrim, Trade Secrets (1967). This work has been reproduced and updated as Volumes 12 and 12A in Business Organizations (Matthew Bender & Co., 1981).

[6] Restatement of the Law, Second, Torts (1979), Vol. 4, p. 1.

[7] See the Prefatory Comment to the Uniform Trade Secrets Act reproduced in (1980) 14 U.L.A., Civil Proc., p. 537.

[8] The Uniform Act was recommended at the Annual Conference of the National Conference of Commissioners on Uniform State Laws, at San Diego, California, August 3-10, 1979.

except Kansas.[9]

1.11 There has to date been no report on trade secrets by a Canadian law reform agency. The federal Department of Consumer and Corporate Affairs has maintained an interest in the subject area because of the close relationship between trade secrets, anticombines, trade regulation, patent, and copyright law. However, the federal government's jurisdiction with respect to a civil action for misappropriation of trade secrets is at best doubtful, and this has effectively precluded any distinct federal initiatives. Trade Secrets was, on one occasion, tentatively canvassed as a topic for the Canadian Uniform Law Conference, but lack of resources, and other work priorities have prevented it from receiving attention.

1.12 This Report has its genesis in certain recent events in Canada which have acted as a catalyst for law reform in this area. In the last decade there has been an increasing number of so-called trade secret "thefts" in both Canada and the United States.[10] Also, computers and their associated data banks have become a target both for computer freaks wishing to demonstrate that "the machine can be beaten" and other persons seeking to

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9 This information is extracted from a draft article on the Uniform Act by one of the U.S. Uniformity Commissioners, Professor Richard Dole of the University of Houston College of Law. Professor Dole kindly made the article available to the Institute. The U.L.A. lists the adopting jurisdictions for a given Uniform Act and updates that list by pocket part from time to time. The list in (1980) 14 U.L.A., Civil Proc., p. 537 is now incomplete with respect to the Uniform Trade Secrets Act.

10 See Roy E. Hofer, "Business Warfare over Trade Secrets" (1983) 9 Litigation 8.

intercept commercially valuable data.[11] Incidents such as the McLaughlin case in Alberta,[12] the Dalton School case in Montreal,[13] and Hitachi's attempted appropriation of IBM's computer-designs[14] have received international publicity. The Canadian Bar Association and various data processing organizations urged the federal government to review the law relating to interference with computers and misappropriation of valuable information.[15] The federal Department of Justice commenced a study of the topic. A private member's Bill proposing amendments to the Criminal Code was introduced into the House of Commons in 1982.[16] This Bill was then referred to a Commons Justice and Legal Affairs Sub-Committee for study.

1.13 By arrangement with the federal Department of Justice, a Background Paper on Improper Interference with Computers and Misappropriation of Commercial Information was prepared for the joint use of the Department and this Institute by Institute counsel. The Paper recommended, inter alia, that civil law protection of trade secrets should receive some priority as a law reform project. The Commons Sub-Committee adopted that

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11 See "Beware: Hackers at Play", Newsweek, September 5, 1983, p. 42.

12 R. v. McLaughlin (1980) 18 C.R. (3d) 339(S.C.C.).

13 See Macleans, August 29, 1983, p. 48.

14 See David B. Tinnin "How IBM Stung Hitachi", Fortune, March 7, 1983, p. 50.

15 Hansard, Commons Debate, October 16, 1980, p. 3764.

16 Bill C-667. For the Parliamentary discussion of that Bill see Hansard, Commons Debates, February 9, 1983, 22674.

recommendation.[17] The Federal Minister of Justice in July of 1983 released draft amendments to the Criminal Code which are designed to protect the physical integrity of computers and data bases within them.[18] A review of civil law protection of trade secrets is therefore timely and complementary to federal initiatives to up date the criminal law in this area.

c. The Form of the Report

1.14 This is not a final Report. It is a tentative set of conclusions accompanied by draft legislation. The Institute's purpose in issuing a Report for Discussion at this time is to allow interested persons the opportunity to consider these tentative conclusions and proposals and make their views known to the Institute. Any comments sent to the Institute will be considered when the Institute determines what recommendation, if any, it will make to the Alberta Attorney-General. It is also possible that this topic will be the subject of a joint federal provincial initiative at some future point of time, and this Report and any comments received on it may form a useful starting point for such a venture.

1.15 It is just as important for interested persons to advise the Institute that they approve the proposals and the draft legislation as it is to advise the Institute that they object to them, or that they believe that they need to be revised

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[17] Report of the Sub-Committee on Computer Crime, para. 58, p. 19-20.

[18] See proposed Criminal Law Amendment Act 1983, ss. 54 and 67 and Information Paper on Criminal Law Amendment Proposals (Minister of Justice, July 1983).

in whole or in part. The Institute often substantially revises tentative conclusions as a result of comments it receives. Neither the proposals nor the draft legislation have the final approval of the Institute's Board of Directors. They have not been adopted, even provisionally, by the Alberta government.

1.16 As a matter of convenience, a summary of the matters on which the Institute would particularly welcome comment, is set out in Chapter six. This summary is not intended to preclude comment on any matters contained in the Report, or which readers may consider relevant to this subject-area.

CHAPTER 2

TRADE SECRETS AND BUSINESS PRACTICE

2.1 Any discussion of law reform presupposes an appreciation of the practical concerns out of which legal issues are said to arise. In this chapter we describe in broad terms how trade secret issues occur in everyday business practice. We do not attempt to evaluate in this chapter how the law does or should respond to those issues.

2.2 Industry spokespersons, both in consultations with the federal Department of Justice and when appearing before the Parliamentary Sub-Committee on Computer Crime, insisted that there was a need for better law to protect their "proprietary information" and "trade secrets".[19] Close examination of their evidence and cases in the law reports suggests that these broad phrases can be broken down into four categories, although the lines between them are not clear cut.

2.3 The first category involves very specific product secrets. Famous examples of this kind include the formula for Coke, the recipe for Kentucky Fried Chicken and the composition of the metals used in the highest quality orchestra cymbals. In such a case, the business is the secret. The secret may or may not be patentable, but a patent is never applied for. The possessors of the secret hand it down, usually by an oral

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[19] A number of briefs were filed for the purpose of the federal Dept. of Justice/Canadian Information Processing Society National Consultation on Computer Abuse held in Toronto on March 2 and 3, 1983. The evidence before the Parliamentary Sub-Committee on Computer Crime is summarised in the Report, note 17, supra at paras 15-19.

tradition, within a tightly controlled hierarchy of persons. Trade secrets of this kind have existed since at least the time of the Greek Empire, and will likely always exist, regardless of the state of the law.

2.4 Such secrets amount to a monopoly of a peculiar kind. No other business has the secret, but since the product is freely available on the market, competitors can imitate it or even replicate it exactly if their own research facilities can break down (or "reverse engineer") the composition of the product. If a secret of this type was acquired by a competititor by nefarious means, the loss to the originator of the secret could conceivably amount to a total diversion of business. However consumers might get the same product (albeit from a different company) at a cheaper price.

2.5 The second category involves technological secrets. Every business enterprise uses a combination of labour, energy and raw materials to produce <u>some</u> product. Faced with soaring costs for all three items, contemporary businesses rely on technology to reduce costs and increase productivity. The ability of an enterprise to do well or even survive in today's highly competitive climate is directly related to its success in acquiring, protecting and exploiting some aspect of modern technology. Knowledge of these processes that increase efficiency is usually referred to as technological "know how". If this know how which produces greater efficiency becomes available to other industry members, the enterprise is not necessarily lost, but its market competitiveness will be reduced. From a consumer's point of view more firms may become more efficient, but the originator

of the innovation may be less likely to invest in further new technological processes.

2.6 A third category of trade secrets relates to strategic business information. Businesses spend a good deal of money preparing internal marketing studies, customer lists, industry forecasts and the like. This sort of generalized, insider information about a particular trade or industry is important because it forms the raw data on which other decisions, such as financing, or marketing may be based. Loss of the information may not be as catastrophic to a business as a loss of a trade secret in categories one or two, but it can alert a competitor to the business strategy likely to be adopted in a particular market sector or save valuable start up time or cash expenditures in assembling the information.

2.7 The fourth category is more recent and relates to information as a product in and of itself. The greatest attribute of the computer is its ability to store and collate information. A new industry which utilizes this potential in the form of packaged information services has come into being. Individual bits of information, useless in themselves, are collated into usable packages and sold like any other commodity. The value of the information lies in the collation, not the individual items, which can be collected off any public library shelf. "Secrecy" in such cases is something of a misnomer. It applies either because no one else has the equipment or know how to collate the relevant information or has not invested the time and resources required to do so.

2.8 If a competitor or would be competitor wants to obtain information of the foregoing kinds, there are essentially two ways of going about it. The competitor may seek to lure an employee of the enterprise which has the information into his own employ. Alternatively, the competitor may have to resort to some form of espionage. That is, an attempt is made to appropriate the information without detection.

2.9 Both these practices have a long history in commerce. For instance, medieval guilds attempted to keep trade secrets "in the family", and Joshua Wedgwood once attempted to persuade the English Parliament to allow the opening of artisans' mail to prevent workers from taking employment on the Continent and carrying with them technical insider knowledge of the pottery industry. There are documented instances of industrial espionage extending back at least as far as the Roman Empire.[20]

2.10 The incidence of both these methods has increased in recent years, for several reasons. First, technology has changed the nature of modern business in a number of respects. Business has become a race against time. Technology is volatile and short lived. The increasing pace of technological change means that many perfectly good ideas and inventions may be obsolete before they can be patented and brought to the market place. This problem is complicated by the fact that different parts of a product may have different development rates. Computers typify this problem. Hardware is developed and marketed within several

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[20] For a good overview of the historical development of trade secret law, see Daniel F. Fetterly, "Historical Perspectives on Criminal Laws Relating to the Theft of Trade Secrets" (1970) 25 Bus. Lawyer 1535.

months. On the other hand, until artificial intelligence becomes available, computer software has to be developed at great expense and over a longer period of time in the form of several hundred thousand lines of hand constructed code. Software is thus an extremely expensive, labor intensive form of intellectual property which requires fanatical protection while the cost of its development is recouped through sales. Technology has also promoted keener competition. At one time a business enterprise got a competitive advantage from its proximity to the railroad or raw materials. Today the business advantage lies in technology. The business pressures to know what competitors are doing are therefore intense. Second, employee mobility is now greater than at any time in history. Relative affluence and the acquisition of more generally applicable skills have made it much easier for employees to move from place to place and job to job. As a result valuable information is often placed in less controllable or loyal hands. It has also become easier for an employee to leave and compete directly with an employer. Many small businesses are created today to trade on specific new technological advances that larger companies, with slow, cumbersome organizations cannot exploit. Extensive capital is less of a problem than it was a decade ago. Simpler, more effective communications facilitate market penetration by even the smallest companies. It is thus more attractive for employees to strike out on their own. When they do so, difficult issues arise as to what information can be called "theirs" and what should be respected as more properly belonging to their former employers. Third, technology has made espionage <u>per se</u> much simpler. There is now an array of sophisticated equipment, much of it derived from military

developments, which makes espionage within even well run enterprises a real threat.

2.11 Industry spokespersons argue that trade secret losses are serious and warrant urgent legislative attention.[21] Is there objective evidence to substantiate these claims? There is no definitive statistical or empirical evidence of the incidence of such losses in Canada or the United States.[22] The intellectual property bar reports that it is handling more cases of this kind than previously, and in the last several years there have been more cases involving trade secret issues appearing in the law reports. There are empirical studies which suggest that losses to businesses and governments from computer related crime are significant.[23] It is, however, quite unlikely that a scientifically accurate picture of trade secret losses could ever be assembled. Businesses and governments rarely disclose losses of this kind. Such a revelation may suggest lax security on their own part. Litigation necessarily involves revealing at least some details of the secret in open court and signals the value of the information in the market place. The available evidence does,

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21 Note 19, supra.

22 Perhaps the best empirical study of trade secret protection and its relationship with patents was undertaken as a Harbridge House study in the United States in 1968. See Richard Miller, Legal Aspects of Technology Utilisation (1974).

23 D. Parker, S. Nycum and S. Oura, Computer Abuse (S.R.I. 1973); D. Parker, Computer Abuse Assessment (S.R.I. Rep. 1975); D. Parker, Computer Abuse Perpetrators and Vulnerabilities of Computer Systems (S.R.I. Rep. 1975); but c/f General Accounting Office, Computer Related Crimes in Federal Programs (1976); J. Taber, "A Survey of Computer Crime Studies" (1980) 2 Computer L.J. 275. See also, Robinson, Law outdistanced by technology, The Financial Post, 30 May 1981, p. 24, col. 3.

however, corroborate in a general way the claims of industry spokespersons.

2.12 We accept, as a general proposition, that there is today a real problem both in Canada and the United States, which in its widest sense can be described as the improper acquisition and use for commercial gain by one party of valuable information which has been generated by some other party. The evidence available to us appears to indicate that the incidence of such cases is increasing and is causing real concern to commercial interests. The total problem is somewhat wider than that of trade secrets and may require attention at several points in the law. Trade secrets are, however, a significant and manageable sub-set of this overall problem for law reform purposes.

CHAPTER 3

THE PRESENT LAW RELATING TO PROTECTION OF TRADE SECRETS

a. Introduction

3.1 Canadian law does not presently mark off trade secrets as a subject area for separate legal attention. If a trade secret in any of the categories suggested in Chapter two is to receive legal recognition and protection, it must, as the law stands, be under doct nes of general application. The most important of these, as has already been noted, are derived from the law of contract and from equity. There are also certain other areas of the law which may incidentally give rise to some protection for trade secrets. Further, the law relating to trade secrets does not exist in a vacuum. It forms part of a larger body of law, which is usually referred to as the intellectual and industrial property laws of Canada. This body of law includes such things as patent, copyright and trade mark law, and related trade regulation statutes.

3.2 In this chapter we describe in greater detail the various ways in which trade secrets might be protected under the existing law. We also describe the relationship between legal protection of trade secrets and other aspects of the law of intellectual and industrial property, and the operational effectiveness of that body of law. In so doing we reserve until later chapters the important questions of whether the law should, in general, give protection to trade secrets, and whether the law should be reformed in any way.

b. Legislation

(1) Patents

3.3 Modern patent law evolved from the "Letters Patent" which were granted by the Tudor monarchs to lure skilled craftsmen to England. Those patents were guarantees of trade monopolies, and were granted on an individual and selective basis. The quid pro quo for the Crown was revenue from these patents, and they were a means of rewarding loyal service. By the early seventeenth century the courts had taken over the grant of patents. The judges considered that patents should only issue for useful inventions which would benefit society. This judicial philosophy subsequently formed the basis of the famous Statute of Monopolies of 1623, which prohibited monopolies except for patents of inventions.[24]

3.4 In Canada patents fall exclusively within federal jurisdiction.[25] Under the federal Patent Act,[26] , a patent is a form of limited monopoly granted by the state to the inventor of "any new and useful art, process, machine, manufacture or composition of matter, or any new and useful improvement [in any of those things]".[27] Five criteria must be satisfied before a patent can be issued. The invention must be composed of proper

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[24] For the historical background to patents, see Fox, Monopolies & Patents (1947), Part One; Cornish, Intellectual Property: Patents, Copyright, Trade-Marks & Allied Rights (1981), pp. 79-84.

[25] Constitution Act 1867, s. 91 (head 22).

[26] R.S.C. 1970, Chap. P-4.

[27] Id., s. 2 (definition of "invention").

subject matter; it must be novel; it must be useful; there must be an element of inventiveness, and the invention must be properly specified in the documentation, so that other persons will be enabled to manufacture the invention when the patent expires. The exact meaning of each of these criteria has attracted considerable case law refinement.

3.5 The inventor who does meet these criteria obtains the right to exclude all others from making, using or selling the invention within Canada for a period of 17 years from the date on which it is issued. The inventor may also receive the benefit of certain international treaties with respect to patents.

3.6 The rationalization for contemporary patent statutes has caused much debate. One argument involves an explicitly Lockean view: the inventor has a natural right to the "fruits of his labour". A more widely accepted argument is that a patent is a privilege granted by the state to encourage new inventions.[28]

3.7 At first blush, patents would seem to give a principled measure of protection to trade secrets. In practice, for several reasons, this is not so.

3.8 First, a trade secret may not be, in terms, within the Patent Act. For instance, a cardinal principle of patent law is that ideas and scientific principles as such are not patentable.[29] This principle is clearly defensible in abstract

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[28] See H.G Fox, Canadian Patent Law and Practice (4th ed., 1969), pp. 5-6.

[29] This principle has statutory force in Canada. See the Patent Act, note 25, supra, s. 28(3) (No patent shall issue for "any mere scientific principle or abstract theorem.")

terms. An Einstein should not be able to get a state supported monopoly on the theory of relativity. But this general principle has given rise to serious practical problems. Computer programmes, for instance, are based upon alogrithms - abstract mathematical formulas - and hence have been held not to be patentable. On the other hand, a practical embodiment making use of a scientific principle is patentable. For example, if a mining company developed a system to use sound waves to differentiate between different metals in the ground, that would be patentable. The knowledge that sound waves could be used for such a purpose would not be patentable.

3.9 Second, even where the Patent Office grants a patent it can be challenged at a later point of time on the basis that the necessary criteria have not in fact or law been met. The attrition rate of patents in litigation in recent years has been high in North America. In some U.S. federal circuits, it has been calculated that 80% of patents challenged are held invalid in subsequent litigation. In Canada 69% of the patents challenged in the Supreme Court of Canada between 1928 and 1969 were held invalid. In all litigation in the same period, nearly 40% were held invalid.[30] The courts are insisting on higher standards for "inventiveness" and the interdependent nature of much modern research means that it is increasingly difficult to demonstrate "novelty" in the technical meaning of that term.

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[30] Duncan, Canadian Business and Economic Implications of Protecting Computer Programs (unpublished Ph.D. thesis, University of Texas at Austin, 1975), 227.

3.10 Third, patent applications are expensive (the minimum legal costs today would be $1500 on even a simple patent) and may take several years to process, particularly if there is a challenge to the grant. The time frame of most contemporary technological developments is such that a useful development may be obsolete before it can be patented.

3.11 Fourth, Canadian patent law does not necessarily protect an invention whilst it is being developed. There are two methods by which priority as between rival claims to a patent might be determined. One is the first to file system which is used everywhere in the world except in Canada, the United States and the Philippines. In those three countries, the rule is first to invent.[31] Even this rule however can leave a hiatus when the development is still in the laboratory stage, and has not yet resulted in an "invention" within the technical meaning of that term. For that reason, many companies depend upon trade secret protection up to the time an invention in the patent sense comes into being.

3.12 Fifth, the term of a patent is limited to 17 years.[32] That term involves a conscious public policy choice that, in general, an inventor will reap a sufficient, but no more than sufficient return from his monopoly in that period. Thus, in the case of the golf ball typewriter (IBM patent) and the Beta video format (Sony patent) the inventor must recoup the developmental outlay in that time, and make a profit. There is much debate

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[31] For Canada, see s. 28(1)(a) Patent Act; Fox, note 27, supra, p. 224.

[32] Patent Act, s. 48.

about this general time period, and whether it allows too much or too little. Some companies consciously bypass the statutory measure if the developmental costs are too great or if they anticipate being able to successfully protect the trade secret by other means and thus to obtain a longer period of return. Still other companies use trade secret protection in tandem with patent protection. Trade secret protection is used until a patent has been obtained and the product released onto the market.

(2) Copyright

3.13 Copyright law, like patents, has undergone a change of rationales in the course of its history.[33] Originally copyright was a means of protecting the printing trade. The Crown granted the right of copying, thereby generating revenue for itself and exercising a form of censorship. In time, copyright became a means of protecting authors' rather than publishers' interests. There is an ongoing debate as to whether this protection rests on a natural right in the author or is merely a statutory privilege. Copyright law in Canada is today purely statutory.[34]

3.14 Copyright falls exclusively within federal jurisdiction in Canada.[35] The essential concepts which underpin the Copyright Act are these. Copyright extends to every "original literary, dramatic, musical and artistic work".[36] However, only

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[33] See Cornish, supra note 24, pp. 293-315; Fox, The Canadian Law of Copyright & Industrial Design (1967), pp. 1-41.

[34] Fox, note 33, supra, p. 2.

[35] Constitution Act 1867, s. 91 (head 23).

[36] R.S.C. 1970, Chap. C-30, s. 4(1).

the form of expression of the work is protected. The ideas, concept or subject matter are not.[37] However good or valuable an idea or plan is, it becomes public property once it is publicly disclosed. "Originality" for the purposes of the Copyright Act does not refer to the expression of original thought, but to the manner in which it is expressed. Copyright, under Canadian law, is not contingent upon registration of the work (as in some countries) but attaches automatically upon creation of the work. The protected work must be in permanent or fixed form. If a work attracts copyright, the owner of the copyright is entitled to the sole right of reproduction for a period based on the life of the author plus fifty years. A patent is an absolute monopoly. Copyright is not. Copyright does not prohibit independent creation of the same work.

3.15 In practice, a number of difficulties arise with copyright law from the point of view of protection of trade secrets. First, and most obviously, since the idea itself is not protected, legal remedies for copying the material in which the idea appeared are second best or even illusory. There is both civil and criminal liability under the Copyright Act for copying,[38] but the measure of damages relates to the loss occasioned by the copying (as opposed to the loss of idea) and the criminal sanctions are nominal.

3.16 Second, the Copyright Act is now over fifty years old. It was drafted at a time when most modern technology did not

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[37] See Fox, note 33, supra, p. 43.

[38] See Copyright Act, note 36, supra, ss. 20-26.

exist. Bringing developments such as computers and home videos within the present Act is either impossible or involves outlandish interpretations of the Act. For instance, to bring a computer programme within the Act would involve a court accepting that the programme could be classified as a machine readable translation of an "artistic work".

3.17 Reform of the Copyright Act has proven to be a slow and contentious exercise. Work on the evolution of a modernized Act began more than a decade ago in Canada.[39] Reform of the law in this area is difficult partly because the subject matter is a moving target and partly because international conventions come into play, as well as domestic considerations. For instance, Canada is a signatory to both the Berne Convention[40] and the Universal Copyright Convention[41] and is required thereunder to treat foreign works in the same manner as domestic works. Canada imports most of its computer software. Improved and more strictly enforced copyright laws could hamper efforts to build a stronger domestic output of computer programmes.[42] It seems likely that amendments to the Copyright Act may be introduced into Parliament

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39 For background studies see Report on Intellectual & Indistrial Property (1971, Economic Council of Canada); Keyes & Brunet, Copyright in Canada: Proposals for a Revision of the Law (1977); and the recent Copyright Revision Studies undertaken by Consumer & Corporate Affairs.

40 The Convention is reproduced as the Second Schedule to the Copyright Act, note 36, supra.

41 Reproduced in Fox, note 33, supra, p. 776.

42 See Globe & Mail, September 16, 1983, B14. (Reported statement by Bruce Couchman, Consumer and Corporate Affairs.)

in the relatively near future.[43] However, given the complex nature of the subject, and the debate it has engendered, it may well be at least two or three years before amending legislation is actually enacted, and at this time it is impossible to predict even the general shape of reformed legislation.

(3) Freedom of Information legislation

3.18 Business is regulated in various ways by one or both levels of governments. In most industries it is literally impossible to operate without formal permissions of one kind or another. As only several examples of the many hundreds that arise in business in Canada today, an enterprise may need approval under FIRA, it may need to discuss details of its financial operations with Revenue Canada to establish whether various tax concessions would apply to its operations, it may have to obtain permission from some local authority to discharge water into a particular river, and it may have to have land rezoned to permit an appropriate plant using new technology to be built to treat the water prior to discharge. Each such incident involves making a fairly detailed disclosure to a government, or a government agency, of what that business enterprises wants to do, and how it proposes to go about doing so. Inevitably, much of this information is regarded as confidential or in the nature of a trade secret by the disclosing enterprise.

3.19 The general model for freedom of information statutes

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[43] Statement by B. Couchman, note 42, supra.

which evolved in the 1970's involved three mental steps.[44] First, all information in government hands was declared to be public property. Second, various exceptions were then created to that general principle. Third, provision was made as to who could apply to get information from the government. The problem of trade secrets was recognized in a general kind of way by the drafters of this kind of legislation, and the statutes provided that the government was not to reveal to third parties trade secrets which had come into its possession.[45]

3.20 In practice, the trade secrets problem has become the major freedom of information issue. For instance, in the United States nearly eighty per cent of applications under the federal statute involve one competitor attempting to smoke out trade secrets of a competitor. These applications raise very difficult and largely unresolved issues. Is the original depositor of the information to be entitled to determine what is a trade secret? If the depositor is not to be the judge of trade secrecy, is the government obliged to decide that issue, and on what criteria? What is the position to be if the government inadvertently discloses a trade secret? What if a third party wants to challenge the bureaucracies holding that certain information does amount to a trade secret? What if the government needs further information to decide whether something is or is not a trade secret? Can the government compel further disclosure? What if the original depositor wants to sue to prevent disclosure? What kind

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[44] See generally, McCamus (ed.), Freedom of Information, Canadian Perspectives (1981).

[45] See e.g. Access to Information Act, S.C. 1980-81-82-83, c. 111.

of action might that person have?[46]

3.21 It seems quite possible that similar issues will arise under Canadian legislation in this area. In one respect those Canadian jurisdictions which do not have legislation of this kind have an advantage: they could at least profit from experience elsewhere.

3.22 A review of the general model for freedom of information statutes and its practical application is probably warranted in light of experience. About all that can usefully be said as to the present law is that in those jurisdictions which have freedom of information legislation, trade secrets deposited with government are, in principle, supposed to be protected but in practice they may not be. In those jurisdictions which do not have such a statute, the status of trade secrets required to be supplied to government is very doubtful. Alberta does not have a freedom of information statute of this kind.

(4) Privacy Legislation

3.23 At common law there is no cause of action for invasion of privacy. Some Canadian jurisdictions have enacted statutes which give a civil cause of action for invasions of privacy. There have been only a handful of cases under these statutes, and there is no reported instance in which a claim has been made involving a trade secret. The statutes appear to be designed to protect personal privacy. Although there may conceivably be some

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[46] See, generally, as to these issues, Note, "Developments Under the Freedom of Information Act 1978" (1979) Duke L.J. 327.

circumstances in which personal privacy might be invaded in the course of the misappropriation of a trade secret, the protection provided by these statutes is, at best, peripheral.[47] Alberta does not have a privacy statute of the kind under discussion in this paragraph.

(5) Criminal Law

3.24 Historically, criminal law protection of trade secrets has been derived only through offences of general application. For instance, if a trade secret was also a military secret, disclosure of it to a foreign enemy might amount to treason. As to purely commercial misappropriations, if the appropriator interfered with physical property in the course of obtaining the information, offences such as trespass, and break and enter will usually be committed. It was however widely accepted throughout the common law world that information per se was not property for the purpose of the theft, conversion and trespass provisions of criminal codes or statutes.

3.25 That general perspective has recently been brought into question. In the United States, some states began to proscribe the theft of trade secrets in response to a crisis in the pharmaceutical industry.[48] Italian law did not recognize drug patents. Secret formulas were stolen, and the drugs were

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47 See generally, D. Vaver "What's Mine is Not Yours: Commercial Appropriation of Personality under the British Columbia, Manitoba and Saskatchewan Privacy Acts" (1981) 15 U.B.C. Law Rev. 241.

48 See Fetterley, Note 20, supra. For the statutes, see the compilation by Michael A. Epstein in Appendix B-5 to Milgrim, note 5, supra.

manufactured in Italy and exported to the United States. The defendants were beyond the reach of U.S. civil law. A majority of U.S. states now have a theft of trade secrets provision in their criminal statutes or codes. However very few prosecutions have been brought under these provisions. Business enterprises apparently dislike revealing that their internal security may have been lax. A prosecution usually indicates that the information is considered to be valuable. This is turn raises difficult procedural problems for a court which is faced with the problem of protecting the secret in the course of what should be an open trial. A few companies do have an overt prosecution policy. IBM for instance, invariably prosecutes. Some indication of the strength of that company's views emerged in the recent attempt by Hitachi to appropriate details of IBM's design proposals for new computers. Theft of information per se is not an offence in any United States jurisdiction.

3.26 There is no British Commonwealth jurisdiction which presently has a criminal law provision aimed directly at theft of trade secrets. In Canada the Criminal Code proscribes theft of a telecommunications service,[49] but a computer has been held not to be within the present statutory definition of "telecommunication".[50] The federal government has introduced proposals to protect the physical integrity of computers in an omnibus Criminal Code revision bill.[51] If enacted, the bill would add two new offences to the Code: unauthorized interference

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[49] R.S.C. 1970, Chap. C-34, s. 287.

[50] R. v. McLaughlin (1980) 18 C.R. (3d) 339 (S.C.C.).

[51] Note 18, supra.

with a computer and unauthorized interference with data within a computer.

3.27 Whether confidential information per se can be considered "property" for the purposes of the theft provisions of the Canadian Criminal Code is probably still an open question. In R. v. Stewart, the Ontario Court of Appeal held (by a majority) that it could.[52] This decision contradicts the position espoused by the English Court of Appeal[53] and some text writers[54] and is presently on appeal to the Supreme Court of Canada.

c. Common Law Protection of Trade Secrets

(1) Tort

3.28 Tort law is concerned with civil obligations which are imposed by law. Such obligations do not depend upon agreement between the parties. Anglo-Canadian law has not adopted prima facie tort theory, which holds that any harm which one person inflicts on another person is actionable in the absence of lawful justification. Instead, Anglo-Canadian law has followed English theory in recognising discrete "nominate" torts, each of which is directed to the upholding of a particular interest in society. There is presently no tort of misappropriation of a trade secret

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52 R. v. Stewart (1983), 5 C.C.C. (3d) 481; 35 C.R. (3d) 105; 149 D.L.R. (3d) 583. See also Magnusson, "Kirkwood and Stewart: Using the Criminal Law against Infringement of Copyright and the Taking of Confidential Information" (1983) 35 C.R. (3d)) 129; Hammond, "Theft of Information" (forthcoming, April 1984, L.Q.R.).

53 Oxford v. Moss (1978) 68 Cr. App. R. 183 (Div. Ct.).

54 See e.g. Griew, The Theft Acts 1968 and 1978 (4th ed.) at pp. 16-17.

although some torts, such as unlawfully inducing a breach of contract (as by enticing away a key employee), may give a peripheral measure of protection to trade secret "owners".

3.29 One development in tort law which may be significant for intellectual and industrial property law involves the nominate tort of passing off. It is actionable to use a name or get up in a way which is calculated to cause confusion with the goods of a particular trader. The classical authorities[55] suggest the tort protects a proprietary right in the reputation or goodwill of a product of which the name, mark or get up is the badge or vehicle. The objective is to protect the public from being confused as to whose product is whose. There is an alternative argument: passing off could be considered as a subspecies of a more generalized category of tortious behaviour called "unfair competition". This latter argument has commended itself to several Commonwealth judges in recent years.[56] It may be therefore that the tort is undergoing an evolutionary change.

3.30 It is impossible to predict whether the unfair competition argument will prevail in British Commonwealth jurisdictions.[57] There are two difficulties with the general concept. First, unfair competition, as a concept, rests upon uncertain premises. One is that substandard business morality can

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55 See e.g. Spalding & Brothers v. Gamage Ltd. (1915) 32 R.P.C. 273, 284 (Lord Parker); Reddaway v. Banham [1906] A.C. 139.

56 See e.g. Bollinger v. Costa Brava [1960] R.P.C. 16; Colgate Palmolive Ltd. v. Pattron [1978] R.P.C. 635.

57 In England, the House of Lords appear to have reaffirmed the classical position in Erven Warnik v. Townend (1980) R.P.C. 31.

somehow be identified and attacked. Another premise is economic: if one person is entitled to take advantage of the work or labour of another without paying appropriate compensation for it, then "good" economic behaviour (industry and creativity) will be discouraged. Second, the concept has not had much impact even in those jurisdictions which have adopted it. Some continental codes have unfair competition provisions but they do not appear to be used very often in practice. In the United States the Supreme Court in 1918 endorsed the concept in the famous case of International News Service v. Associated Press.[58] However, after the decision in Erie v. Tompkins[59] (holding that there is no federal common law in the United States) the doctrine became a matter for state common law. Its subsequent history is that of a legal argument of last resort. In many states the existence of specific trade secret protection statutes has now made reliance on this tort unncessary.

3.31 In Canada an attempt was made in a circuitous manner to introduce a cause of action for unfair competition. The federal Trademark Act[60] contains a provision in s. 7(e) proscribing "the [doing of] any act or [the adoption of] any other business practice contrary to honest industrial or commercial usage in Canada". This statutory tort lay dormant for many years and was not relied upon in practice. This may have been because there was always doubt about the constitutional validity of the provision. That caution on the part of the bar

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58 (1918) 248 U.S. 215.

59 (1938) 304 U.S. 64.

60 R.S.C. 1970, Chap. T-10.

was justified: in McDonald v. Vapour Rub[61] the provision was finally held unconstitutional by the Supreme Court of Canada. Some federal government advisors have argued that provided this provision was recast in the form of a regulatory statute, the federal government might be able to reenact it, relying on the trade and commerce clause of the B.N.A. Act. The federal government has not given any indication that even if such an argument were accepted, it intends to resurrect s. 7(e) in some form. The problem is one which could, if it were thought desirable that there be such a cause of action in Canada, be addressed by the evolution and adoption of a Uniform Act by the provinces.

3.32 If a generalized tort of unfair competition were to be recognized in Canada, it would be of direct relevance to the protection of trade secrets. On the present state of the authorities it seems unlikely that the concept will evolve as a judicial development of the law without a good deal more debate over a period of years.

(2) Contract

3.33 The law of contract may be employed to protect trade secrets in several ways. First, contract law recognizes in a general way that an employer has a legitimate interest in protecting information evolved for the purpose of that employer's business. Thus, even in the absence of an express covenant, courts routinely imply into the employer/employee relationship an obligation of good faith. However, such covenants, whether

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[61] [1977] 2 S.C.R. 134.

express or implied, are not treated as being absolute. They are made subject to certain general principles of the law of contract relating to restraint of trade. The covenant will be enforced only if it is reasonable both in the public interest, and as between the employer and the employee. Under these principles the courts are, in effect, attempting to draw a balance between the employer's economic interests on the one hand, and the employees (and society's) interest in mobility of labour on the other hand. This balance may be hard to achieve in particular cases, but the principles of law are very well established and not in doubt. It is very common in high technology firms for quite specific, and elaborate provisions regarding secrecy to be worked out between key employees and their employer.

3.34 Second, it is open to a business to protect its physical premises and plant against theft of trade secrets by admission licences. Under this procedure, a business will not allow any person to enter its premises for any purpose, unless that person signs an undertaking to respect the employer's interest in any confidential information with which that person may come in contact. Major high technology companies commonly resort to this practice today.

3.35 Third, it is quite common in practice to "package" new technology when it is sold to other companies. Company X may have developed a new, more efficient method of welding. The mechanical part of that method may have been patented. However, very often there will be a good deal of unpatented (and unpatentable) information and know-how about the conditions under which the new invention works best. This information is reduced to writing, and

sold along with the machine, on the condition that it not be divulged to other interested parties without the express consent of Company X. Licencing agreements also commonly contain elaborate provisions as to the persons who will be entitled to use trade secrets, and under what conditions.

3.36 Contractual protection of trade secrets is very widely practised in North America today. There does not appear to be any published evidence that problems have developed in practice which could not be addressed by existing principles of contract law.

(3) Equity: fiduciary duties

3.37 Persons who occupy positions of particular trust owe, in law, higher duties of allegiance to the persons they represent than those which arise under an employee's general duty of loyalty. These persons are categorized in law as fiduciaries. The incidents which the law attaches to a fiduciary relationship are severe. Fiduciaries are not entitled to put themselves in a position where their duty and personal interests may conflict, and this includes a duty not to traffic in trade secrets gained in a fiduciary capacity. The classical authorities hold the fiduciary to an absolute standard. Thus, even where the beneficiary has knowingly rejected the use of the benefit the information represents, the fiduciary may still be held liable to account to the beneficiary.

3.38 There are several difficulties with fiduciary law from the point of view of protection of trade secrets. First, at one time it was thought that there were particular categories of fiduciaries, and that a plaintiff had to bring himself within one

of those established categories. That view is probably not now good law. The categories of fiduciaries are, like those of negligence, never closed. However, once obvious situations such as that of trustees and company directors are put to one side, there remains a good deal of room for argument as to how far lesser officials and employees may be subject to fiduciary duties. Some persons who have access to trade secrets may not, in law, occupy a fiduciary position.

3.39 Second, there has been much legal debate as to the person to whom the fiduciary duty is owed. For instance, it is still widely accepted that in relation to companies the director's duty is to the company, not to individual shareholders of the company. This raises practical problems as to who can sue in a given case.

3.40 Third, the remedies for a breach of a fiduciary duty pose some difficulties in relation to trade secrets. Remedies can be classified as either personal or proprietory. Personal remedies do not entitle the plaintiff to trace a particular piece of property into the hands of third parties. This may be very important in some cases. (E.g., where the defendant is insolvent). Proprietary remedies on the other hand allow tracing. However, whether a trade secret should be considered as property for the purpose of this classification is a very difficult issue. The judgments in the leading Commonwealth authority[62] have not definitively resolved the question.

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[62] Boardman v. Phipps [1967] 2 A.C. 46.

3.41 In the result, fiduciary law may give rise to an effective remedy against some misappropriations of trade secrets, but even then the results this head of liability will produce depend very much upon who can sue, and the application of a very difficult body of remedial law.

(4) Equity: unjust enrichment

3.42 There is no doubt that Canadian law recognizes a doctrine of unjust enrichment. In general terms, this doctrine is aimed at preventing a person from retaining money or some other benefit which it is against conscience that he should keep. Beyond that very broad statement, there is little agreement upon the nature, or incidents of this doctrine. As one academic commentator has noted:

> The juridical nature of unjust enrichment raises a number of issues. Is the principle nothing more than a general concept which provides unity to the otherwise diverse actions in quasi-contract and equity? Or is the principle an invitation to discretionary justice? The diversity of opinion among judges and commentators can be seen from the diversity of descriptions that they have applied to the principle of unjust enrichment. It has been called the source of a remedy or a source of remedies, a unifying principle, a talisman to distinguish a restitution case from a case in tort or contract, and a generalized right of action.[63]

3.43 In one of the most widely cited English judgments, Goff J. suggested that the principle "presupposes three things: 1/ receipt by the defendant of a benefit, 2/ at the plaintiff's expense, 3/ in such circumstances that it would be unjust to

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[63] Klippert, "The Juridical Nature of Unjust Enrichment" (1980) 30 U.T.L.J. 356, at p. 356.

allow the defendant to retain the benefit."[64] In relation to trade secrets these principles raise more questions than they answer. Even assuming a benefit has been received by a defendant, there is no Canadian authority for the proposition that taking or using a trade secret without authority is within principles 2 and 3. The suggested principles do not tell us why, and when, the taking of a benefit is at the plaintiff's expense, or why it is unjust that a defendant should be allowed to retain that benefit.

3.44 The conclusion would seem to be, therefore, that however unjust enrichment is conceived, its present parameters are too uncertain for it to be pressed with real confidence in relation to trade secrets. Moreover, despite academic interest in this subject-area, case law development of the law has been sporadic and slow.

(5) Equity: breach of confidence

3.45 From about the middle of the eighteenth century English chancery judges began to grant injunctions against what came to be termed a "breach of confidence". The first cases concerned protection of unpublished manuscripts where the manuscript had been communicated to someone upon terms limiting its user, though the parties were not necessarily in a contractual relationship. The early cases contain some confusing language as to the basis of this jurisdiction. As Turner V.C. noted:

> That the court has exercised jurisdiction in cases of this nature does not, I think, admit of any question. Different grounds have

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[64] B.P. Exploration Co. v. Hunt [1979] 1 W.L.R. 783, 839.

> indeed been assigned for the exercise of that jurisdiction. In some cases it has been referred to property, in others contract, and in others, again, it has been treated as founded upon trust or confidence, meaning, as I believe, that the court fastens the obligation on the conscience of the party, and enforces it against him in the same manner as it enforces against a party to whom a benefit is given the obligation of performing a promise on the faith of which the benefit has been conferred: but, upon whatever grounds the jurisdiction is founded, the authorities leave no doubt as to the exercise of it.[65]

3.46 By the mid nineteenth century it was clear that equity courts would grant injunctions on a broad principle that "information obtained by reason of a confidence reposed or in the course of a confidential employment, cannot be made use of either then or at any subsequent time to the detriment of the person from whom or at whose expense it was obtained."[66] This principle, which had started life as a means of protecting unpublished manuscripts in the days before modern copyright, was gradually extended in the cases to cover any kind of marketable knowledge.

3.47 During a period from about the late nineteenth century until the second world war, this equitable doctrine fell into disuse. Whether as an accident of legal history or a more conscious choice, the cases during that period were largely argued on the basis of contract theory.[67] However, in a land

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[65] Morrison v. Moat (1851) 9 Hare 241; 20 L.J. Ch. 513; 68 E.R. 492, per Turner V.C. at p. 498.

[66] Ashburner, Principles of Equity (2nd ed.) p. 374.

[67] Ashburner suggests that common law judges were attempting to utilise in common law terms, ideas that had originated in equity. Id.

mark case in 1948, Lord Greene M.R. reaffirmed the existence of the equitable doctrine.[68] Since that time there have been a number of reported cases in all the British Commonwealth jurisdictions as the principles relating to this original head of equity jurisprudence have been articulated and refined.

3.48 The present law can be summarised thus: The leading judgements have returned to the proposition asserted by the early chancellors. The jurisdiction is based on a broad principle of good faith. "He who has received information in confidence should not take an unfair advantage of it."[69] That doctrine does not depend upon the existence of a contract between the parties or there being property in the subject matter of the confidence. It is not confined to trade secrets. Information of any kind may come within its reach. The doctrine has however been judicially circumscribed in various ways.[70] First, the information must be confidential. It must not be something which is publicly known. Second, the information must be imparted in circumstances importing an obligation of confidence. This implies some kind of dealing (not necessarily resulting in a contract) between the

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[68] Saltman v. Campbell (1948) 65 R.P.C. 203. For Alberta case law see Mobil Oil Can. Ltd. v. Canadian Superior Oil & Nielson [1979] 4 W.W.R. 481 (Alta S.C.); Chevron Standard Ltd. v. Home Oil Co. [1980] 11 B.L.R. 53 (Q.B.), (1982) 35 A.R. 550 (C.A.), leave to appeal to S.C. denied (1982) 40 A.R. 180; Protheroe, "Misuse of Confidential Information" (1978) 16 Alta. Law Rev. 256.

[69] Fraser v. Evans [1969] 1 All E.R. 8 per Lord Denning M.R. at p. 11.

[70] A widely accepted statement of the limitations appears in the judgment of Megarry J. (as he then was) in Coco v. Clark [1969] R.P.C. 41. (Ch.). See also Vaver, "Civil Liability for Taking or Using Trade Secrets in Canada" (1981) 5 C.B.L.J. 253.

parties. Thus, the voluble inventor who blurts out his invention at a party may have no redress under this doctrine. And information obtained surreptitiously by some form of industrial espionage may not be actionable. Third, there must have been an unauthorized use of the information. Fourth, in some circumstances, there may be just cause for the use or disclosure of the information. This principle can be traced back to the old equity maxim that there is no confidence in an iniquity,[71] and was subsequently broadened into its present formulation by (principally) Lord Denning.[72]

3.49 The remedies which may be available when this cause of action is made out have occasioned much debate. There is no dispute that an injuction may be granted preventing the use of the information, and that judges have the power to order the delivery up and destruction of such things as blue prints or customer lists in the possession of the defendant. There has been a good deal of concern as to the period of time for which an injunction should be granted. A perpetual injunction would put the plaintiff in a better position than a patentee, and this has troubled some judges and commentators. As to damages, in theory, if breach of confidence is a doctrine derived from the original equity jurisdiction of a court there is no power to award common law damages for a breach of that obligation. To do so would presuppose a doctrinal fusion of law and equity. In practice, courts have ignored this problem, though it has continued to

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[71] Gartside v. Outram (1856) 26 L.J. Ch. 113.

[72] See e.g. Fraser v. Evans, note 69, supra. The defence has recently been affirmed by the House of Lords in British Steel Corp. v. Granada Television Ltd. [1980] 3 W.L.R. 774.

trouble commentators seeking to explain the difference (if any) between equitable and legal damages. There is also uncertainty as to whether a court can award damages in addition to an account of profits. Most authorities suggest that an election must be made between damages or an account of profits.[73]

3.50 There is no doubt that Commonwealth lawyers have welcomed the expansion of this doctrine in recent years, and that it enables relief to be obtained in many trade secret cases where there is no contract. There are however, a number of important aspects of this area of the law which are still unresolved.

3.51 First, although the subject matter of a breach of confidence is, in theory, unlimited it is not clear how far the law will go in protecting ideas per se under this doctrine. Traditionally courts in England, Canada, and the United States were opposed to the notion that ideas were somehow legally protectable. More recently, there have been signs in the cases that the courts will now, in some circumstances, protect ideas. For instance, in Fraser v. Thames Television Ltd,[74] an English court recently held that an idea for a television series is protectable by injunction, even if only expressed orally, provided that (a) the circumstances in which it was communicated imported an obligation of confidence and (b) that the content of the idea was clearly identifiable, original, of potential commercial attractiveness and capable of reaching fruition. An

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[73] See Vaver, note 70, supra.

[74] [1983] 2 All E.R. 101.

Australian Court has come to a similar conclusion.[75] The issues raised by this departure from the classical legal wisdom are difficult and raise once again the dilemma of reconciling the public interest in access to new ideas with what, in some cases, is perceived to be the injustice of permitting someone to commercially exploit the ideas of others. What seems to be happening is that the courts in these cases are struggling for a middle ground somewhere between the comprehensiveness of copyright protection on the one hand and the complete denial of legal protection for ideas on the other.[76] The cases all involve the entertainment industry, which in contemporary culture is marked by a voracious appetite for new ideas, and an obsession with market ratings. Whether the courts will expand this case law into other areas can only be speculative.

3.52 Second, as already noted, whether industrial espionage as such is addressable under this doctrine is, in the absence of case law authority, still an open question in Canadian law.

3.53 Third, the Courts have not finally resolved how far liability can or should be imposed on third party recipients of the confidential information. There is no doubt that under the existing law, a third party with actual or constructive notice of a breach of confidence is within the doctrine. The position of a bona fide purchaser for value has not been settled in Canada.[77]

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[75] Talbot v. General Television Corp. [1981] R.P.C. 1.

[76] See Nimmer, Copyright (1983), Vol. 3, Chap. 16, Para. 16-01 (discussing the U.S. case-law in this area).

[77] See J. Stuckey, "The Liability of Innocent Third Parties Implicated in Anothers Breach of Confidence" (1981) 4 U.N.S.W.L.J. 73. An Australian court has recently held that this defence does not apply to this cause of action. See

3.54 Fourth, the remedial problems which this cause of action creates make it very difficult to advise clients with any real confidence.

d. The over all effect of the present law

3.55 The present law with respect to trade secrets can usefully be conceived in terms of an umbrella. The ribs of the umbrella represent various areas of the law under which some measure of protection is available. The umbrella is not however a total protection from the elements - in this case trade secret pirates - and has some distinct rents in it.

3.56 Whether a citizen can obtain legal protection of a trade secret depends upon a consideration of many areas of the law and an intelligent selection of that area which will afford the best legal protection in the particular case. There is no specialist body of law which has a distinct functional application to trade secrets, and is easily located and applied. On the contrary, the legal protection of trade secrets is so complicated that in many cases specialists in all the areas of the law detailed in this chapter may have to be called upon.

3.57 There is, however, no question that courts have assumed that the legal protection of trade secrets is a good thing. We examine that premise in the next chapter.

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[77](cont'd) Wheatley v. Bell [1982] 2 N.S.W.L.R. 544.

CHAPTER 4

POLICY: SHOULD TRADE SECRETS BE LEGALLY PROTECTABLE?

a. Introduction

4.1 In Chapter 3 we indicated the manner and extent to which a trade secret can be protected under the existing law. The particular result may be "good" from the perspective of an individual client, but it does not necessarily follow that allowing such protection is in the overall interests of society.

4.2 The purpose of this chapter is therefore to establish an understanding of the policy issues which are involved in granting or withholding legal protection with respect to trade secrets. Issues of that kind rarely admit of unqualified answers. We therefore seek also to establish the sort of limits that should be placed on such protection, if it is to be continued.

4.3 The arguments for legal protection of trade secrets can usefully be grouped under three heads - moral, economic, and pragmatic. We deal with each of them in turn. We then deal with countervailing policy considerations and a possible resolution of the various competing interests.

b. Moral arguments for the protection of trade secrets.

4.4 There are two quite distinct moral arguments which might be asserted with respect to trade secrets. The first is concerned with a Lockean view of property, the second with business ethics.

4.5 The statement that "every man is entitled to the fruits of his own labour" has become a truism. This populist view is a crude reflection of the classical liberal theory articulated by John Locke.[78] Locke included "property" in his sacred trinity of "life, liberty, and property". The central issue in justifying any regime of private property, is how exclusivity - the hallmark of a property interest - is to be sanctioned in the absence of the consent of one's fellow men. Locke's answer was that private property is an institution not of man, but of nature. Men can choose their forms of governments but in matters of property they have not the right of choosing. The modern view of property by way of contrast is that it is conventional: property rights are created by man. They are valid only because men have agreed to respect them, and will (if necessary) collectively enforce those understandings.

4.6 The Lockean view is important in relation to intellectual and industrial property laws. Authors, composers and inventors usually see their work in a Lockean light and claim that a denial of a right to exploit what they create is intrinsically unjust. That viewpoint in fact found its way into some formal European codes. French law, for instance, divides an author's rights into two quite distinct elements. The moral element is exemplified by so called paternity rights: claims of authorship, to protection of the integrity of the work and even the right to withdraw a published work from the market. The pecuniary element is recognized through rights of exploitation. Anglo-Canadian copyright law on the other hand makes no such

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[78] Of Civil Government (1690).

distinction. Copyright does not depend upon natural or moral rights at all, but solely upon statute. That statutory right was arrived at only after an analysis of all the various interests involved, with a particular emphasis on the public interest. The statute law gives very carefully defined rights to authors, and it is only as a matter of legal shorthand that we refer to the bundle of such rights as "property".

4.7 This debate, which has been overt with respect to copyright law, also lies behind the conflict of opinion over trade secrets. In much the same way as an author considers himself as having a natural right in his manuscript, the discoverer of a secret formula usually considers it to be "his" by natural right.

4.8 Whatever views individuals may hold with respect to these issues, it seems quite unrealistic to expect that the pragmatic thrust of Anglo-Canadian law can now somehow be changed in the direction of natural law theories. Nor is it obvious that such a change should be made. The resolution of legal issues routinely involves the clarification and adjustment of a number of competing interests in an even handed manner. Even real property today "belongs" to somebody in only a highly qualified sense.

4.9 The second moral argument is more difficult to analyse. In general terms it asserts that misappropriation of a trade secret offends commercial ethics. As Megarry J. put it, "[A] court must be ready to make those implications upon which the

sane and fair conduct of business is likely to depend."[79] And in a famous dictum, Holmes J. claimed that: "The word 'property' as applied to trademarks and trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith".[80]

4.10 A good faith requirement is defensible in abstract terms as a proscription of dishonesty, but like a concept of unfair competiton it is not easy to give content to it for practical guidance. Flagrant espionage involves the appropriation of time, skill and money employed by another person. Other cases are more difficult to analyse in these terms. For instance, convincing a key employee that his best interests and his future lie elsewhere may proceed from impure motives, but actually be for the best both for him and his potential contribution to society. The particular conduct the courts attempt to proscribe has sometimes been described as "free-rider" behaviour. This term conveys a sense both of the moral wrong as well as the economic interest at stake.

4.11 The judges may have been wise to leave the good faith argument at the general level. There is a societal benefit in insisting on at least minimal standards of commercial ethics. Our socio-economic system could probably not survive without at least some restraints on predatory behaviour. Whether the good faith

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[79] Coco v. Clark [1969] R.P.C. 41 (Ch.) at p. 51.

[80] E.I. du Pont v. Masland (1917) 244 U.S. 100, 37 S.Ct. 575 at 575-576.

principle is offended in a particular case is partly a matter of the practices and customs in a particular industry, and partly an appreciation of a level of conduct which any reasonable member of society would not condone.

c. Economic arguments for protection of trade secrets

4.12 British Commonwealth judges have consistently viewed this subject area in "conduct" terms. Whilst not discounting the importance of that approach, U.S. judges and commentators have gone further, and have attempted to articulate economic rationales for the legal protection of trade secrets.[81] These relate to the diffusion of technology, rewards for creativity, and the personal interest of employees in mobility of labour.

4.13 These rationales do not rest upon a simple assertion that a trade secret is, or should be, somebody's "property". They have to do with a recognition of the importance of both the production and disemination of "good information" throughout society. Nevertheless, it is convenient here to mention briefly the argument that a trade secret is "property" and should be treated as such by the law.[82]

4.14 To say that X is Y's "property" is to imply that Y has both the ability and the lawful right to exclude everybody else from using or interfering with X. Information or secrets - as has

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[81] Particularly useful are E. Kitch "The Law and Economics of Rights in Valuable Information" (1980) 9 J. Legal Studies 683; T. Robison, "The Confidence Game: An Approach to the Law about Trade Secrets" (1983) 25 Arizona Law Rev. 347.

[82] For a fuller discussion see Hammond, "Quantum Physics Econometric Models and Property Rights to Information" (1981) 27 McGill L.J. 47.

been repeatedly pointed out by analysts from many disciplines - does not readily lend itself to such a notion. For instance, a customer list can be copied an infinite number of times without affecting the original list, whereas a removal of gravel by X from Y's land seriously affects the land. A second kind of difficulty with treating a trade secret as property is that such a categorisation sets off a string of legal incidents which may or may not be desirable in a particular case.

4.15 Nevertheless the arguments which are made for a trade secret as a "property" interest do point up, in a general way, the economic desirability of there being some kind of economic reward for innovative behaviour. However, the extent and terms of that reward, need not necessarily be cast in terms of an exclusive "property" interest. The "property" argument should also remind us that most businesses treat information and trade secrets as if they were assets, at least for some purposes.

4.16 As to the broader economic issues, the first concerns the relationship between employer and employee, and the effect that relationship has on diffusion of information. The policy dilemma here has been concisely articulated by the Supreme Court of Pennsylvania in a well-known judgment:

> "[There is] a problem of accommodating competing policies in our law: the right of a businessman to be protected against unfair competition stemming from the usurpation of his trade secrets and the right of an individual to the unhampered pursuit of the occupations and livelihoods for which he is best suited. There are cogent socio-economic arguments in favor of either position. Society as a whole greatly benefits from technological improvements. Without some means of post-employment protection to assure that valuable developments or improvements

are exclusively those of the employer, the businessman could not afford to subsidize research or improve current methods. In addition, it must be recognized that modern economic growth and development has pushed the business venture beyond the size of the one-man firm, forcing the businessman to a much greater degree to entrust confidential business information relating to technological development to appropriate employees. While recognizing the utility in the disperson of responsibilities in larger firms, the optimum amount of "entrusting" will not occur unless the risk of loss to the businessman through a breach of trust can be held to a minimum.

On the other hand, any form of post employment restraint reduces the economic mobility of employees and limits their personal freedom to pursue a preferred course of livelihood. The employee's bargaining position is weakened because he is potentially shackled by the acquisition of alleged trade secrets; and thus, paradoxically, he is restrained, because of his increased expertise, from advancing further in the industry in which he is most productive. Moreover, as previously mentioned, society suffers because competition is diminished by slackening the dissemination of ideas, processes and methods.

Were we to measure the sentiment of the law by the weight of both English and American decisions in order to determine whether it favors protecting a businessman from certain forms of competition or protecting an individual in his unrestricted pursuit of a livelihood, the balance would heavily favor the latter. Indeed, even where the individual has to some extent assumed the risk of future restriction by express covenant, this Court will carefully scrutinize the covenant for reasonableness "in the light of the need of the employer for protection and the hardship of the restriction upon the employes."... It follows that no less stringent an examination of the relationship should be necessary where the employer has not seen fit to protect himself by binding agreement."[83]

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[83] Wexler v. Greenberg (1960) 160 A.R. 430, at pp. 434-435.

4.17 A second critical economic issue is whether trade secret protection has a beneficial effect on creativity in society. This issue cannot be considered in isolation from patent policy.

4.18 Patent law and policy proceeds on the premise that some legal protection is required for inventors to risk the often enormous costs in time and money of a given development. The productive effort thereby fostered may well have a positive effect on society through the introduction of new products and processes into an economy, and this in turn is supposed to lead to fuller employment and better lives for citizens. This legal protection takes the form of an absolute, state supported, but time limited monopoly. The price of this monopoly is disclosure. The patentee is required to publicly describe his invention in such a way that other persons may make it, when the time has expired. Moreover, if the patentee does not utilize his patent, the legislation provides for a system of compulsory licences.

4.19 There has been much debate about whether the patent system actually achieves the objectives claimed for it. There is a very real difficulty in establishing the facts. All western countries have some form of patent laws, and therefore it is not possible to compare the economic performance of countries which have such systems against those that do not. The most useful litmus test is Holland, which abolished its patent system between 1869 and 1912. One study demonstrated that that country's exports showed a diminishing proportion of manufacture through that period and that this was due to the absence of a patent

system.[84] In general however, economists have had difficulty in making valid generalisations because the size of firms, differences in markets and so on give rise to many variables.

4.20 Nevertheless, all the formal enquiries into this question (including those in Canada) have come out in favour of maintaining the patent system. The conclusions of the Banks Committee in the U.K. are typical:

> "(i) Wherever industry has developed, patent systems have emerged and been adopted and have played an important role in encouraging innovation.
>
> (ii) No alternative system for the encouragement and growth of new industry by private enterprise has been established.
>
> (iii) National patent systems have been of increasing importance in the worldwide development of technology, with resulting benefit to the expansion of international trade.
>
> We concluded that the value of the patent system is established in the terms expressed above."[85]

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[84] A.F. Ravenshear, The Industrial and Commercial Influence of the English Patent System (1908).

[85] Cmnd. 4407, p. 15.

4.21 If patents are supposed to encourage both creativity and disclosure, how does trade secret protection fit into the economic scheme of things? It is difficult to see how encouragement of creativity could be disturbed by the existence of another form of legal incentive. The real issue therefore must relate to disclosure as a condition for legal protection. The difficulty here is that there are three situations which might evoke different answers.[86] (i) The trade secret may be known to be not patentable. (ii) The trade secret may be believed, by its owners, to be patentable but that step may not have been taken. (iii) The patentability of the trade secret may be very doubtful. We will deal with each of these situations in turn.

4.22 As to trade secrets which are not patentable, from an economic perspective, several things would likely happen if trade secret protection was done away with altogether or was too weak. There would be no, or no sufficient, incentive to invest in something which was not potentially protectable. There would probably be an increased number of worthless patent applications, thereby further bogging down an already over loaded Patent Office. Security precautions within companies would have to increase, and salary patterns would probably change. Companies would have to make very sure that it was not worthwhile for valuable employees to decamp. Smaller companies would be at a disadvantage in these respects. The increased costs would be passed to consumers. Innovative entrepreneurs would narrow the circle of those they felt they could trust. Ultimately, organized

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[86] These three categories are suggested in Painton & Co. v. Bourus Inc. (1971) 442 F. 2d 216, and Kewanee Oil v. Bicron Corp. (1973) 416 U.S. 470.

scientific and technolgoical research could become fragmented. If there is no, or no sufficient, legal protection for trade secrets, there would be no way of licensing others to exploit them. If a trade secret holder could not utilize licences, either he would have to limit his utilization of the invention, or build manufacturing and marketing facilities for himself. Whether the trade secret holder can do this more efficiently than a possible licensee depends upon the particular circumstances of the trade secret holder and his licensee. Some degree of economic inefficiency is likely.

4.23 As to trade secrets which are probably patentable, the issues are more difficult.[87] The trade secret holder has voluntarily chosen to bypass the patent system, which requires disclosure as a condition of protection. Is this desirable? If it is not, the conclusion (from an economist's view point) would presumably have to be either that trade secret protection should be disallowed altogether, or protection should be extended only to those trade secrets which are definitely not patentable.

4.24 The only final appellate court to have given a judgment on the relationship between patent policy and trade secret policy is the U.S. Supreme Court in the Kewanee case.[88] That Court argued that trade secret law is "weaker than" patent

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[87] The assumption in this category is that the trade secret has been developed to the point where it could, if it otherwise met the terms of the Patent Act, be patentable.

[88] Note 86, supra.

law and therefore not in conflict with it.[89] Also, in a remarkable passage, the Court specifically adopted the ripeness-of-time theory of invention. This holds that when something is ready to be discovered it will be, and probably by more than one person. Hence, argued the court, when the trade secret is "used", it will alert competitors to its existence (though not its details) and competitors will themselves then make an effort and discover the secret for themselves. Thus, it was held, patent law and trade secret law should be allowed to co-exist, and perform discrete (though related) functions.

4.25 The ultimate question would seem to be this: is a strong system of trade secret protection likely to detract from the protection for disclosure theory espoused by the patent statute? The answer must be in the negative. Much useful and valuable information does not and never will come within the Patent Act. And where, logically, does the duty of disclosure stop? Should there be a sort of societal clearing house for every idea jotted down in a notebook at the inventor's bedside? The sensible answer seems to be that the judges have been correct in their assessment: there is a tier of interests, of less than patentable status, but above mere jottings, that require legal protection. In this sense trade secret protection is complementary to patent protection.

4.26 Finally, under this head, the consequences of adopting a policy of only partially allowing trade secret protection

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[89] "Weaker" because it gives no protection against reverse engineering, does not operate against the world, and is subject to greater risk of interception.

should be noted: provincial civil courts would be required to distinguish, as a threshold question, between what a reasonable inventor would and would not correctly consider to be clearly patentable. This would amount to nothing less than a patent action before the trade secret issues could be resolved. Such a trial within a trial, particularly in a forum which is not used to dealing with such issues, is quite undesirable.

4.27 The third situation involves doubtful patentability. If there were no trade secret protection, the inventor would have to apply for a patent, and take his chances on getting it. This is a slow, expensive business. If the Patent Office held to its present exacting standards, there would be large numbers of rejections (and appeals) and in the meantime society will be deprived of the use of those discoveries through trade secret licensing. Alternatively, the Patent Office could come under pressure to lower its standards to allow in a wider range of claims, or Parliament could be pressed to expand the scope of the Patent Act. This later alternative is fraught with major constitutional implications, because it would involve a federal excursion into areas which the provinces would undoubtedly view as involving property and civil rights.

4.28 Cases of doubtful patentability are always difficult. It seems entirely speculative whether society would be better off attempting to push them all into the Patent Office. In economic terms society may be better off allowing immediate trade secret licencing and utilization of the secret for whatever they are worth.

4.29 A third major economic issue relates to the influence of intellectual and industrial property laws on the location of industry.[90] Most jurisdictions, including Alberta, are overtly espousing a policy of trying to attract high technology industries, such as micro-electronics or industries utilising genetic engineering. Such industries are attractive because they do not depend upon large amounts of raw materials, need not be located close to particular markets because of minimal transport costs, and offer new employment opportunities. In the United States it is readily apparent that centres for research and manufacture of this kind are being located in such places as New England, the Carolinas, Colorado, Minnesota, and California, rather than the traditional manufacturing areas. It is significant that most of the jurisdictions which have reformed their trade secret laws in the United States have done so because of a perceived need to provide a responsive climate for such industries. In this sense, trade secret laws can form an instrument of social and economic policy, in much the same manner as taxation law has been used in the past.

4.30 It is probably impossible to establish a precise linkage between such laws and the location and encouragement of industry, but international experience tends to bear out an intuitive response that such considerations are important to industry. For instance, when China recently opened its doors somewhat to Western enterprises, the question was immediately raised as to whether North American businesses would be prepared

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[90] This issue does not appear to have been raised in any court judgment.

to divulge and transfer technology which could not be protected in a country which has no legal system in the North American sense, let alone a body of intellectual and industrial property law. Given that these new industries are just now being established, it seems likely that the ability of a company to protect its proprietary information is at least one factor which would be considered in establishing that industry.

d. Pragmatic arguments for trade secret protection

4.31 Different kinds of enterprises face different problems. Large high technology development firms employ many lawyers, all with sophisticated expertise in this subject area. Extensive strategy sessions are held to determine the best mode of protection of a particular development. Outside such entities, advice on the intricacies of this area of the law is difficult to come by, and expensive. Small firms tend to get on with the job of development without paying a great deal of attention to such issues. If trade secret protection was abolished, such firms might be disadvantaged. They would have to rely on contract law or the federal statutes for protection of their know how. The considerations evolved by Chancery Courts arose out of relatively small scale disputes, and not surprisingly most of the cases in the law reports involve cases of that kind. This may suggest that there should be a statutory fall back for small firms that have not the experience, expertise or wherewithall to settle the outcome in advance. This is of course, precisely the same argument that has been accepted elsewhere in the law, notably with respect to legislation relating to sale of goods.

4.32 Assuming that the arguments suggested earlier in this chapter for protection of trade secrets were not persuasive, presumably a revision of many areas of the law ought to follow. If protection of trade secrets were not a good thing why should it be possible to employ general doctrines of the law to achieve protection? The doctrine of breach of confidence might have to be abolished (at least with respect to trade secrets), the law as to employee covenants altered, the disclosure requirements of the Patent Act strengthened, and so on. Turning the legal clock back in this manner might not be impossible, but as an exercise in legal craftsmanship would be extremely difficult and co-ordination of such an effort seems difficult to envision. Moreover, given the historic inclination of Courts to protect trade secrets and the likely pressure on the bar from commercial interests to find ways around any revised laws, there is no guarantee that such a strategy would be successful. Quite likely the situation would become one of a rose by any other name. As only one instance, a tort of unfair competition could safely be predicted as becoming a likely candidate for development.

e. Countervailing policy considerations

4.33 Assuming that legal protection is accorded to trade secrets, there are two kinds of side effects which might arise and be a source of real concern. The first relates to the mobility of labour and the second to the free flow of information.

4.34 As to the mobility of labour, extensive protection of trade secrets might make it more difficult for a person to move

from one job to another. This may be undesirable both from the personal point of view of that employee, and that of society. Knowledge and skills are diffused through society in part by just such employee relocations. Also, a kind of blackmail could take place, with an employee being unable to move for fear of retaliatory civil law suits. Trade secrets could conceivably become compressed into fewer and fewer hands, thus leading to monopolies of knowledge with respect to critical technology.

4.35 In relation to contractual covenants, as we have noted, the restraint of trade doctrine can be utilised to correct such abuses. However, if trade secret law is put on to a statutory basis, some method of limiting the potential for abuse as against employees would seem to be desirable.

4.36 As to the free flow of information there are two kinds of concerns. First, as the importance of information has come to be better appreciated in contemporary societies, a great deal of theoretical and empirical work has been undertaken in the disciplines of sociology, economics, communications science, and political science.[91] All of those studies emphasize the interactive character of information and knowledge and its importance, not just to technological progress, but for individual human development as well. The implications of those studies for law reformers would seem to be that legal impediments to the free flow of information should require distinct justification, and that each exception to the general norm should

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[91] See Background Paper on Improper Interference with Computers and the Misappropriation of Commercial Information (Institute of Law Research and Reform, 1983).

be granted only in sufficient, but no more than sufficient terms.

4.37 Second, there may be some information which should never be legally protectable. Assume, for instance, that an eccentric scientist discovers a cure for cancer. He is also a recluse and dislikes publicity. He advises his colleagues that he has found the "cure", that it is in his safe, and can be released only on his death. His colleagues think the public interest requires immediate disclosure, break into his safe, and publish the results. Should there be a public interest defence which would override any claim to legal liability which would otherwise apply? As noted in chapter 3, under the doctrine of breach of confidence there is a defence of "just cause or excuse" although the exact parameters of that defence have caused much debate. It seems to us that as a matter of general principle, such a defence is important and should be maintained. Trade secrecy, even when granted, should not be absolute. We deal with this issue in more detail in Chapter 5.

f. Resolving the various policy considerations.

4.38 Is the law faced with an impasse in the form of several public policy objectives amongst which a choice must be made? In our view, the position is not that stark. The free and open transmission of ideas and information is, or should be, the cornerstone of Canadian society. Nevertheless, in particular kinds of cases the law may need to restrict the availability of some kinds of information. Such restrictions should be rigorously scrutinized, and allowed only where a compelling case is made out. Even in such cases, the protection granted should be

sufficient, but no more than sufficient, having regard to the rationale for the exception. Finally, because the facts of a given case can never be predicted in advance, the protection granted by the law should not be absolute, but should be defeasible if there is some other over-riding public interest, which would defeat the public interest in the protection of the information.

4.39 In the last analysis, the arguments for legal protection of trade secrets come very close together. They amount to a recognition that everyone who generates valuable information has a legitimate interest in turning it to account. The notion - often expressed by judges - that what should be prohibited is "free rider" behaviour, seems to us to encapsulate the various moral and economic arguments on which the interest rests. At the same time, the law should not allow recognition of that interest to unduly hinder employee mobility or the free flow of information in society. What is involved is, therefore, an adjustment of relevant interests, rather than a preference as between them. Seen in this light, the problem of trade secrets is sui generis. That is, it involves recognition of an interest which rests on its own particular considerations.

CHAPTER 5

RECOMMENDATIONS FOR REFORM

a. Introduction

5.1 If it is accepted first, that civil law protection of trade secrets is desirable and second, that the countervailing policies set out in Chapter 4 must also be accommodated, the next question becomes one of legal technique. How is this complex set of objectives to be turned into a workable legal formula? This issue in turn cannot be divorced from the question of whether courts or legislatures should undertake that task.

5.2 This Chapter approaches these questions in three parts. First, we note the general direction that law reform has taken in other jurisdictions in this subject area. Second, we outline in a broad way certain propositions which we think should be reflected in a reformed body of civil law for the protection of trade secrets. Third, we consider in more detail how those propositions might be translated into legislation, and various problems which would be involved in such an undertaking.

b. Law reform in other jurisdictions

5.3 We noted in Chapter 1 that law reform agencies in New Zealand, England and the United States have considered this subject-area. All three agencies implicitly accepted the case for legal protection for trade secrets. The New Zealand Committee was content to leave the development of the law to the judges. The Law Commission and the U.S. Uniformity Commissioners on the other

hand recommended legislative development of the law. Which course should be preferred in Canada?

5.4 Several points may be made about the New Zealand approach. First, that Report was written in 1973. A decade ago the micro-electronic revolution was just beginning. In those circumstances it is perhaps not surprising that that Committee found that "misappropriation of confidential information by means of technical surveillance devices is [not] a problem in [New Zealand]."[92] There is evidence that such activities do occur in Canada today and hence the development of the law involves more immediacy.

5.5 Second, the New Zealand Committee thought that "the existing actions at common law and equity provide a satisfactory remedy in those cases outside the patent system where protection is desirable," and that "the courts have shown a willingness to develop the equitable principles relating to breach of confidence".[93] However, it seems clear enough from the more recent, exhaustive study of the existing case law and literature carried out by the Law Commission that this confidence was over optimistic. There are still many gaps and uncertainties in the law.[94]

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92 Protection of Trade Secrets, Ministry of Justice (1973), p. 19.

93 Note 92, supra, p. 17.

94 For instance, at the time Law Com. 110 was issued there was no Commonwealth authority for the proposition that industrial espionage per se was actionable. Subsequently a Queensland court held that it was. (See Franklin v. Giddins [1978] Qd.R. 72.) Whether other jurisdictions would adopt the reasoning of that case must be an open question. Moreover, given the realities of modern day Canadian practice, are counsel to be expected to research all the

This sometimes happens with judicial development of a particular area of the law. Judges have to decide specific disputes on the basis of the authorities put before them, as and when they arise. Nor are Judges responsible for the health of the system as a whole. Some refinement of doctrine has taken place. But what appears to be needed now is not refinement so much as the re-arrangement of the law in a coherent fashion. Much of the learning in the existing case law can be carried forward, but it seems inevitable that judicial development of the law in this area will be too slow, and lacks comprehensiveness.

5.6 Third, New Zealand is a unitary jurisdiction. In a federal system there are dangers of fragmentation of case law doctrine as between different jurisdictions. Although there is no evidence that this has occurred in Canada to date, this was a factor the U.S. Uniformity Commissioners took into account in recommending a Uniform Act.

5.7 Fourth, we have argued that issues of entitlement to particular kinds of information raise critical questions of public policy. Those kinds of issues should involve broad guidance from government.

5.8 The difficulty with legislation in this subject area is, we think, of another kind. Legislation in areas dealing with technology can become outmoded very quickly. This has in fact occurred in Canada with respect to the federal copyright and telecommunications legislation. The fact that legal obsolescence

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[94](cont'd)British Commonwealth jurisdictions to find a possible cause of action?

can and does occur is not however an argument against legislation per se. It is an argument for devoting sufficient legislative resources to matters which have a great deal to do with contemporary socio-economic issues. The answer to concerns about legislation becoming "outmoded" or "too rigid" is therefore twofold: First, legislation should avoid, so far as is possible, definitions or provisions which are technology bound. Second, if, notwithstanding this endeavour, obsolescence does occur it is the legislature's responsibility to attend to the matter by way of amendments or further legislation.

5.9 Both the Law Commission and the U.S. Uniformity Commissioners concluded that the most satisfactory basis for law reform was the articulation of a statutory tort. There is however a significant difference between the two approaches. The Law Commission's proposals extend to all kinds of confidential information. The U.S. Model Act is restricted to trade secrets.[95]

5.10 We find ourselves in sympathy with the American approach. The Law Commission has attempted to develop the existing case law relating to breach of confidence, and thus to accommodate within one legal formula such diverse situations as marital secrets,[96] cabinet secrets[97] and trade secrets. It has therefore tried to construct a formula as to when any confidence

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[95] In the United States pesonal confidences are protected by an emerging tort of breach of confidence, (See "Note: Breach of Confidence: An Emerging Tort" (1982) 82 Col. Law Rev. 1426) and the law relating to privacy.

[96] See e.g. Argyll v. Argyll [1967] Ch. 302.

[97] See e.g. Attorney-General v. Jonathon Cape [1976] Q.B. 752.

not protected by contract is to receive legal protection. Our difficulty with that approach is that we think both the reasons why the law should protect secrets or confidences, and the extent to which it should do so, may vary from one subject area to another. For instance, it is quite likely that many members of society would argue for absolute protection of marital confidences. Whether such protection should be granted would presumably turn on considerations of the current concept of marriage, its purposes in society and so on. Other people would contend for some kinds of exceptions to such a rule. Likewise, many politicians would doubtless argue strenuously for absolute protection of cabinet material, in the interests of full and free cabinet discussions. Other people would insist on particular exemptions. In short, different kinds of situations would seem to raise differing information entitlements and exceptions.

5.11 Our second reason for preferring the American position concerns the state of the law relating to privacy. The Law Commission was in part following up on the Younger Committees suggestion that the action for breach of confidence can assist the protection of privacy interests. As a general proposition, however, in both Canada and the United States, privacy already receives much stronger legal protection than in the United Kingdom.[88] There is therefore no need to "stretch" the concept

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[88] For instance, in Western Canada, some provinces have created statutory causes of action for breaches of privacy, although they are little used in practice. See R.S.B.C. 1979 c. 335; R.S.S. 1979 Chap. P-24; C.C.S.M. Chap. P-125. Alberta does not have a statute of this kind. There have been only a handful of cases under these statutes. See also Burns, "Law and Privacy: The Canadian Experience" (1976) 54 Can. Bar Rev. 1; and Seipp, "English Judicial Recognition of a Right to Privacy" (1983) 3 Oxford J. Legal Studies 325.

of a breach of confidence in North America.

5.12 Our third reason concerns the over-all development of intellectual and industrial property law in North America. Generally speaking, there has been a historic bias in the British Commonwealth in following the thrust of English law unless there are sound "local" reasons for some other course being adopted. This gives Commonwealth jurisprudence a certain degree of unity. This bias has not however been operative in the intellectual and industrial property arena. The Canadian and U.S. Patent Acts are relatively similar, and are both based on the first to invent philosophy. U.S. copyright law at one time borrowed a good deal from the Canadian legislation (which was regarded as a quality model). It is likely that an updated Canadian Act will in turn borrow a good deal from the 1976 U.S. Act.[99] United Kingdom intellectual and industrial property legislation differs in a number of important respects from the North American legislation. Also the U.K. is faced with the difficulty of harmonising its law with E.E.C. law.[100] The similarity between the patent and copyright legislation in Canada and the U.S. is desirable and useful because of the overlap in commerce between the two countries. Many companies operate on both sides of the border. The Canadian intellectual and industrial property bar is familiar with the U.S. legislation and case law, and Canadian Patent Office examiners quite frequently resort to U.S. case law for guidance where there is no Canadian precedent. Canadian lawyers not infrequently resort to U.S. copyright decisions in technology

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[99] Public Law 94-553, 94th Congress, 90 Stat. 2541.

[100] See generally, Cornish, note 24, supra.

related matters. All of this seems sensible and desirable given the commercial relations between the two countries. As a matter of systems architecture, when considering the future direction of trade secret law, it would seem useful that there should be a broadly similar approach between Canada and the U.S. This reasoning in no way, of course, diminishes the critical necessity to find a solution which fits Canada's particular situation regardless of developments in other jurisdictions.

5.13 In the result we think an approach which addresses specific information entitlements is more appropriate to Canada's particular circumstances than is one which would provide an all-embracing solution. We therefore propose to confine our recommendations to trade secrets.

c. The general character of the Institute's recommendations

5.14 We think Canadian civil law with respect to trade secrets should reflect certain major premises:

1. If there is a legally enforceable agreement as to how particular kinds of trade secrets are to be treated, the law should respect that agreement.

2. If there is no agreement, the law should recognize, by means of a statutory tort, a duty to respect trade secrets in specified situations.

3. The term "trade secret" should, for this purpose, be defined in such a way that it will catch all four categories of information described in Chapter two.

4. The law must state with reasonable precision at what point appropriation of information within those categories becomes misappropriation.

5. The law should provide a non-hierarchical range of remedies for misappropriation of a trade secret. A court should be able to select that remedy (or, if need be, those remedies) which are most appropriate in a particular case.

6. A court should be given an over-riding discretion to refuse relief where some other public interest outweighs the public interest in preserving the trade secret.

7. Such civil remedies as there may be with respect to the improper use of information which does not amount to a trade secret within the terms of the legislation should be preserved.

8. The law relating to the protection of trade secrets should, if possible, be uniform throughout Canada.

We will discuss each of these propositions in turn.

d. The recommendations in more detail

(1) The relationship of trade secrets and contract law

5.15 The foregoing premises distinguish between consensual (contract) and imposed (tort) obligations. It would be possible, in theory, to collapse those two categories, and to provide a single statutory formula for protection of trade secrets. This issue has provoked divergent views in law reform agencies.

5.16 The U.S. Uniformity Commissioners thought that there should be a single statutory formula. Both contract and tort case law would be subsumed into a new statutory tort. The issue was, however, clouded somewhat by the draftsmanship of the Uniform Act, and commentators had difficulty in deciphering whether covenants as to trade secrecy were in fact subsumed by the Act or not.[101] Subsequently, some States expressly excluded contract cases from the operation of the legislation.[102]

5.17 The English Law Commission on the other hand thought that contract duties and non-contractual obligations of confidence should continue to exist as concurrent bases of liability.[103]

5.18 Neither the U.S. Commissioners nor the Law Commission appear to have articulated reasons for their preferences. We prefer concurrent liability. In principle, we think the law should at least allow, and perhaps encourage, citizens to settle their own terms between themselves. The law should, in general, provide a fall-back position. It is less authoritarian, and more in accord with normal commercial usage to allow citizens to strike such arrangements as they see fit.

5.19 The possible objections to this solution fall under two heads: inequality of bargaining power or the procedural

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[101] See Klitzke, "The Uniform Trade Secrets Act" (1980) 64 Marq. L. Rev. 277; Milgrim, note 5, supra.

[102] Note 101, supra; and see also Joseph E. Root III and Guy M. Blynn, "Abandonment of Common-Law Principles: The North Carolina Trade Secrets Protection Act" (1982) 18 Wake Forest Law Rev. 823.

[103] Law Com, 110, para. 6.127.

difficulties that such a course might create. As to the first, it is conceivable that an employer might seek to impose quite draconian terms on a prospective employee, as to who shall "own" what information evolved during that employment. Contract law, however, already deals with unconscionable bargains in various ways. For instance, if the employer tried to enforce such a covenant in the form of a negative injunction preventing the employee from subsequently working for somebody else, an injunction might well be refused under the court's discretionary jurisdiction, or the covenant might be struck down altogether as being in restraint of trade.

5.20 As to the procedural problems, allowing a claim both in contract and under some other head of liability (such as a statutory duty or equity) could create limitations anomalies. Plaintiffs will struggle to bring a claim within a head of liability where the relevant limitation period does not apply. However, this is the present position and there is no evidence in the cases that it has caused problems in this particular subject-area.

(2) A statutory tort of misappropriation of a trade secret

5.21 Both the U.S. Uniformity Commissioners and the Law Commission thought that if there was to be a new basis of liability for misappropriation of a trade secret, it should rest

on a statutory tort.[104] We agree. Approaching the matter in this manner avoids the present sterile, and ultimately unfruitful, debate over the proper doctrinal basis of an action for misappropriation of trade secrets. The creation of a new statutory tort involves the articulation of the interests sought to be adjusted, the identification of that point or points at which appropriation becomes misappropriation, the reduction of those matters to a statutory formula, and the provision of a suitable range of remedies.

5.22 The adoption of a statutory tort as the basis for a claim does, however, have certain consequences. The normal tort rules as to remoteness, causation, remedies and the like will apply unless they are specifically modified by statute.

(3) The definition of a trade secret

5.23 It is probably impossible to arrive at an intrinsic definition of a trade secret. The potential subject-matter is limitless. We have emphasized the importance of avoiding technology bound definitions. The alternative is to move to a more functional description of the elements of a trade secret. This is the course which U.S. legislators have taken, and is the approach we recomend.

5.24 Nevertheless, whilst we would prefer to adopt a functional approach to the definition of a trade secret, the

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[104] Vaver, note 70, supra, suggests that the Law Commission really recommended two new torts - one going to non-contractual undertakings to treat information confidentially (see cl. 3, draft Bill); the other to improper acquisition of information (see cl. 5, draft Bill).

actual wording to be adopted has given us some concern. It may be useful to set out here the manner in which definitions have evolved in the U.S., and elsewhere, before we indicate our provisional thinking.

5.25 The First Restatement of Torts (1939) provided:

> Section 757. LIABILITY FOR DISCLOSURE OR USE OF ANOTHER'S TRADE SECRET-GENERAL PRINCIPLE.
>
> One who discloses or uses another's trade secret, without a privilege to do so, is liable to the other if
>
> (a) he discovered the secret by improper means, or
>
> (b) his disclosure or use constitutes a breach of confidence reposed in him by the other in disclosing the secret to him, or
>
> (c) he learned the secret from a third person with notice of the facts that it was a secret and that the third person discovered it by improper means or that the third person's disclosure of it was otherwise a breach of his duty to the other, or
>
> (d) he learned the secret with notice of the facts that it was a secret and that its disclosure was made to him by mistake.

The section did not define a trade secret, but comment (b) to that section has been very widely cited by courts throughout the U.S. and acquired almost the same standing as section 757 itself. This comment stated: "A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it."[105] However it is clear that the framers of section 757 intended to limit the potential operation of the comment somewhat because they also suggested: "A trade secret is a process or device for

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[105] Restatement of the Law - Torts (1939), p. 5.

continuous use in the operation of a business."[106]

5.26 Under the U.S. Uniform Act a trade secret is defined thus:

> "Trade secret" means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:
>
> (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and
>
> (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

5.27 This definition contains two important limitations. First, the information must have some actual or potential economic value to other persons. Economic value will usually relate to the gaining of a competitive advantage. However this definition would also comprehend that persons who are not presently competitors can be misappropriators. The reason for this is that even negative information that certain approaches are commercially infeasible may be of economic value.

5.28 The second limitation relates to "reasonable" efforts to maintain secrecy. It would obviously be economically wasteful to require the maximum protection against disclosure. The pragmatic reality is that secrecy is a matter of degree. The possessor of the information, if he says it is valuable, should be required to protect it. The means and extent of protection will vary with the circumstances of the particular case, in the

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[106] Id.

context of a particular trade or industry.

5.29 To restrict the Uniform Act definition any further would probably require the use of a concept that the information must be "novel" or an "advance in the art." A restriction of that kind would bring trade secret protection into the kind of difficulties that have beset patent law. The use of such a concept would also probably require the use of an independent agency - the analogue of the patent examiner - to establish novelty.

5.30 The only attempt of which we are presently aware to draft a definition of a trade secret in the British Commonwealth was in Sir Edward (now Lord) Boyle's Industrial Information Bill of 1968, which defined "industrial information" as including:

> "unregistered or incomplete patent, trade mark, or design information, know-how, research and technical data, formulae, calculations, drawings, results, conclusions, costings, price structures, contracts, lists of suppliers or customers and private business discussions, or memoranda of the same."

The Younger Committee reduced that shopping list to more concise form: "the improper acquisition for gain of valuable industrial or commercial information."[107]

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[107] Cmnd. 5012, para. 479. There are more than fifty federal statutes in Canada which restrict the availability of various kinds of information. See Appendix A to Background Paper on Improper Interference with Computers and the Misappropriation of Commercial Information (I.L.R.R. 1983).

5.31 In the Institute's deliberations to date, two points of view have emerged with respect to these definitions. One viewpoint favours the Restatement position, subject to two modifications. First, that provision should make it clear that reasonable efforts are required to preserve secrecy. Second, the provision should be extended beyond something presently being used in business, to things which are being developed for use in business or for commercial purposes. Proponents of this viewpoint object to the Uniform Act definition on the footing that it is potentially too broad. The definition might, for instance, encompass a report showing that a manufacturer's product is dangerously defective; or a formula which the holder is keeping secret because the new product would make his existing product obsolete, or information which has accidentally come into the possession of the holder.

5.32 The other viewpoint is that the Uniform Act definition is satisfactory and should be adopted. The Uniform Act does not contain provisions allowing a defence of disclosure based on some other public interest, whereas the Institute's proposals would create such a defence. Hence, for instance, an investigative journalist who unearthed a report or formula of the kind discussed in para. 5.31 would not necessarily be subject to legal liability if it is published.

5.33 It is not presently necessary for the Institute to resolve these viewpoints in this Report for Discussion. Alternative definitions are provided in the Draft Act. We invite comment as to which, if either, should be adopted.

(4) The definition of misappropriation

5.34 In Chapter 4 we discussed the rationales for allowing a civil action with respect to the misappropriation of a trade secret. We suggested they include considerations of commercial morality, economics and several discrete practical reasons. The difficulty from a draftsman's point of view is then to evolve a legal concept or concepts which will embrace all these rationales. The concept which has commended itself to all commentators and law reform agencies to date, has been one of "misappropriation" (of a "trade secret"). Such a concept necessarily implies that some things are wrong; others are not. That is, the suggestion seems to be that there is, or should be, a line between lawful appropriation and unlawful misappropriation.

5.35 One approach to establishing this kind of line is by a process of exclusion. There seem to be four situations which it is widely agreed should not be caught by a concept of misappropriation:

(a) If a competitor can buy the product which embodies the trade secret, and decipher that trade secret with the assistance of his own laboratory or research skills (usually referred to as "reverse engineering"), that does not infringe the legitimate economic interests of the seller of the product. The seller has chosen to include the trade secret in a publicly available item and hence has "published" it, albeit as a puzzle.

(b) If X and Y independently discover the same trade secret

X cannot be heard (in the absence of a patent) to complain that he evolved the trade secret first.

(c) A trade secret may have been purchased from its originator, or the use of it licenced by him.

(d) An employee may employ in subsequent employment general skills built up by him in the employment of the holder of a trade secret.

5.36 We are of the view that any legislation, however it is drafted, should make it plain that none of these four situations is within the proscriptions imposed by that legislation.

5.37 Leaving aside the foregoing situations, at what point should appropriation become actionable? There would seem to be two possible approaches to this issue which we will call, for convenience, the "improper means" approach, and the "authorisation" approach.

5.38 The "improper means" approach reflects a mixed rationale for the protection of trade secrets. It seeks to identify certain kinds of behaviour as being reprehensible for a variety of reasons. As Canadian law stands the catalogue is restrictive and, may only extend to breaches of voluntarily assumed obligations of confidence. Since at least the First Restatement, U.S. law has covered a wider spectrum of things which are "improper", including industrial espionage. In effect, if not in name, the Law Commission's proposals would bring English law onto the same sort of footing as the First Restatement proscriptions (at least so far as trade secrets are

concerned).

5.39 The differences between the Law Commission's proposals and the Uniform Act are more a matter of drafting style than substance. The Uniform Act defined "improper means" as "[including] theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means."[108] The Law Commission's Draft Bill appears to be a detailed enlargement of those terms.[109]

5.40 The "authorisation" approach recognises that a trade secret is an interest which should be recognised by law, and that the holder of that interest should lose it only if he consents to or otherwise authorises its acquisition, disclosure or use by somebody else. This is the approach which is reflected in a recent non-uniform, North Carolina statute.[110] There, the concepts of "improper means" and "misappropriation" disappear in favour of a single concept: "'Misappropriation' means acquisition, disclosure or use of a trade secret of another without express or implied authority or consent, unless such trade secret was arrived at by independent development, reverse engineering, or was obtained from another person with a right to disclose the trade secret."[111]

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[108] Section 1(2).

[109] See Cl. 5(2).

[110] N.C. Gen. Stat. ss. 66-152 to 66-157 (Supp. 1981).

[111] Id. para. 66-126(a).

5.41 What are the advantages and disadvantages of these two approaches? This question can be conveniently dealt with under two heads: the potential scope of the action and certain practical consequences of adopting each alternative.

5.42 As to the first matter, the "improper means" approach imports a notion of moral culpability into the law. The tort then goes to fairly obvious "wrongs" like fraud, breaches of (non-contractual) confidences,[112] espionage and so on. A requirement of moral culpability is not, of course, a necessary element of a tort. Some torts are morally quite neutral, but the effect of a requirement of moral culpability is to limit the tort in this particular instance. For instance, under such a test, a voluble inventor who blurts out his trade secret at a party can hardly complain if the recipient subsequently makes use of voluntarily disclosed information. The "authorisation" approach on the other hand is analogous to a patent or copyright interest because it creates a statutorily prescribed degree of exclusivity. Even the voluble inventor did not consent to the use of his trade secret by someone who overhears his disclosure at a social gathering, and (absent a requirement of his preservation of secrecy) has an action. Thus, whilst the drafters of the North Carolina statute were ostensibly attempting to simplify and refine the Uniform Act, there can be little question but that that statute in fact creates a "strong" tort with an overtly economic impact.[113]

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[112] See Law Com. No. 110, draft Bill cl. 3(1).

[113] Apparently the personnel involved were "horrified" by the complexity of the Uniform Act definitions for the purpose of instructing a jury. They were also concerned about the vagueness of notions of "impropriety." See Root and Blynn,

5.43 We prefer to reserve until our final report our election between the "improper means" and the "authorisation" approach to misappropriation. Such an election depends upon three things. First, this Report has recognised some tension between two policy viewpoints. One emphasizes the values of competition and employee mobility. On this view, information should be relatively unencumbered, and patent, copyright and trade secret protection should be only accepted where they are clearly and specifically required. The other viewpoint emphasizes incentives, the need for lessening costly self-help to protect information generated at real cost, and for punishing transgressions against the interest of the holder of a trade secret. We have previously indicated that we do not view the matter as a question of which set of values it to prevail. Our concern is how to best achieve an appropriate balance between those viewpoints. We would be particularly assisted by comment as to which of the two approaches to a definition of misappropriation would best promote that objective. Second, the formulation of this critical definition may need to be assessed against the factual evidence of the incidence of trade secret abuse in Canada. If consultations subsequent to this Report bring to light further evidence of abuse, that would be a relevant factor in assessing the need for a "stronger" tort. As matters presently stand, it would (inter alia) take extensive evidence of this kind to persuade some members of the Institute's Board to recommend a statute which goes as far as the North Carolina model. Third, the definition of "misappropriation" may have consequential

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[113](cont'd)note 102, supra, pp.102-103.

implications both for remedies and for the position of good faith acquirers of a trade secret, which subjects are discussed below. We would prefer to have comment on those issues before finally resolving the definition of misappropriation.

5.44 As to the wording of actual definitions of "misappropriation" and "improper means", the draft legislation in Part III hereof sets out alternatives. We invite comment on any difficulties those alternatives might give rise to.

5.45 It should be noted that the definition of "improper means" includes a breach of a non-contractual obligation of confidence. This is the precise opposite of the Law Commission's proposals, which treat a breach of confidence as the fundamental wrong and an appropriation by improper means as if it were a breach of confidence. This may raise a question as to whether, and if so how, we should attempt to reduce to a statutory formula the question of when a breach of confidence arises.

5.46 There would seem to be two possible responses to this question. First, there is existing case-law on this point. The formula suggested by Megarry J. (as he then was) in Coco v. Clark[114] has found wide-spread acceptance: would a reasonable man in the position of the recipient of the information have realised that it was given to him in confidence? Thus, if the question were left to the courts, it seems likely that the Coco v. Clark formula would continue to be applied.[115] A second

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[114] [1969] R.P.C. 41, 48.

[115] This test has recently been adopted in Australia in Wheatley v. Bell [1982] 2 N.S.W.L.R. 544.

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[115] This test has recently been adopted in Australia in Wheatley v. Bell [1982] 2 N.S.W.L.R. 544.

response turns on a suggestion by some commentators on the Law Commission's proposals, that the test should be a somewhat narrower one: viz., that the obligation should rest upon an express or implied acceptance by the recipient of an obligation of confidence. If the second response was thought to be the preferred one, a statutory definition would seem to be necessary.

5.47 The Law Commission appears to have been primarily concerned about an unsolicited obligation being imposed upon an unsuspecting person.[116] It seems to us that the existing case-law would enable a judge to deal adequately with that situation. Further, if the test suggested by these commentators was to be adopted it brings an equitable obligation of confidence onto a basis which looks very like contract, absent only the requirement for consideration. We are presently of the view that the present case-law understanding of the meaning of a breach of confidence is adequate.

5.48 The constituent elements of the tort may also have important practical consequences in relation to remedies, and the position of good faith acquirers of a trade secret.

5.49 As to remedies, we propose in paras. 5.53-5.63 a relatively eclectic scheme of remedies designed specifically for use with this tort.

5.50 As to the position of third parties who acquire a trade secret in "good faith" (e.g. by a bona fide purchase of the trade secret from one who misappropriated it), there seem to be

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[116] Law Comm. paras. 6.6-6.13.

two possible approaches. The present law, as we have noted, is that actual or constructive knowledge of the fact that information is a trade secret is necessary before a person becomes subject to legal liability. In principle, we think that proposition is sound.[117] If the tort is constituted on the basis of a misappropriation by improper means, then the requirement of knowledge is preserved. If the court also has a discretion as to which remedies (if any) to award (as we later recommend) then innocent third parties would not be unduly prejudiced by the new tort. If, on the other hand, the tort is to be constituted by an unauthorised taking, the innocent third party recipient incurs liability and can only be assisted in one of two ways. Either the statute has to create some specific exceptions (e.g. a defence of bona fide purchaser for value,[118]) or the statute has to give some directions to a court to relieve that party, at the remedial level, of the full consequences of liability.

5.51 The drafters of the North Carolina statute appear to have elected for this latter alternative. Section 66-128(a)(2) of that statute provides

> A person who in good faith derives knowledge of a trade secret from or through misappropriation or by mistake, or any other person subsequently acquiring the trade secret therefrom or thereby, shall be enjoined from disclosing the trade secret, but no damages shall be awarded against any person for any misappropriation prior to the time the person knows or has reason to know that it is a trade secret. If the person has substantially changed his position in good faith reliance upon the availability of the trade secret for

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[117] The Law Commission seems to have taken the same view, see Law Comm. 110, paras. 6.52-6.55. See also Gareth Jones, Note [1982] C.L.J. 40.

[118] This defence was recently disallowed in Wheatley v. Bell, note 115, supra.

> future use, he shall not be enjoined from using the trade secret but may be required to pay a reasonable royalty as deemed just by the court. If the person has acquired inventory through such knowledge or use of a trade secret, he can dispose of the inventory without payment of royalty. If his use of the trade secret has no adverse economic effect upon the owner of the trade secret, the only available remedy shall be an injunction against disclosure.

5.52 Our tentative thinking is that if the tort is to be constituted on a misappropriation by improper means, then that limitation, together with a broad remedial discretion, is a sufficient safeguard for "good faith" acquirers. If, on the other hand, the tort is to be constituted on a "non-authorised" taking, we think additional provisions would have to be inserted in the statute directing the court to have regard to such things as any change of position by the third party, and like considerations. We should record that we do not favour a specific defence of bona fide purchaser for value. Such a defence would imply that the interest in a trade secret is an orthodox property interest. This is not what we intend. The draft Act is Part II hereof includes suggested provisions. We invite comment.

(5) Remedies for misappropriation

5.53 Assuming that a misappropriation of a trade secret has taken place, what relief should be available to a plaintiff? We think that there should be a range of remedies which can be tailored to fit the circumstances of the particular case. There are however some difficulties both with respect to particular remedies and the relationship between remedies which require some elaboration.

(i) Injunctions

5.54 Traditionally, the injunction has been the prime remedy in this area of the law. There is a major difficulty with respect to the term of the injunction. What if a court has granted an injunction in support of a secret, but that secret has now somehow come into the public domain? Is the defendant still to be subject to the injunction even though the world at large now knows the secret? In other words, is the defendant to remain forever at a disadvantage? Anglo-Canadian courts have not definitively settled this issue. One answer given by some courts in the U.S. is that a perpetual disadvantage is the price of transgression. Other courts have permitted the modification or discharge of the injunction when the secret becomes public knowledge. We think the guiding principle should be that, in general, the fact that a secret has become public should lead to the injunction being set aside. However, there may be cases where the defendant will enjoy a residual advantage if the injunction is set aside immediately the secret becomes public. For instance, it may take several months for other parties to get production lines established. A defendant should not be enabled to take advantage of that profit by a head start.

(ii) Compensatory damages and account of profits

5.55 Damages are compensatory. That remedy is, in general terms, calculated looking to the position the plaintiff would have been in, had the incident complained of not occurred. An account of profits on the other hand establishes what the defendant actually made as a result of his unlawful activities,

and restores that sum to the plaintiff. The two sums will usually be different. These remedies are usually thought of as alternative ways of calculating a sum of money to be paid by a defendant to a plaintiff. It has been the general practice of Commonwealth courts to require a plaintiff to elect between an award of damages or an account of profits. There are, however, some statutory exceptions to this rule. For instance, under the Canadian Copyright Act both remedies may be awarded concurrently.[119] For many years now, American courts have rejected the election rule even where there is no statutory right to both remedies. The present Canadian case law does not settle this issue. What should the position be with respect to trade secret cases?

5.56 The origin of the two remedies differs. Damages were a common law remedy, an account was a Chancery remedy. After Lord Cairns' Act[120] the argument arose that a tortfeasor could not have both damages and an account because by electing an account he was "condoning the infringement." That is, he was treated as saying to a defendant, "you shall be treated in equity as having done this work on my behalf." There seems however to be no reason today in either theory or justice why a plaintiff should not today have both remedies, provided no double recovery occurs, and that is the policy we recommend.[121] We are particularly influenced by the fact that this modification has already been made in copyright law in Canada.

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[119] See Copyright Act, s. 20(4).

[120] 21 & 22 Vict. c. 27 (1858).

[121] See Vaver, note 70, supra.

(iii) Exemplary Damages

5.57 In England, and several other Commonwealth countries, exemplary damages are a severely restricted remedy. The leading authority in England is the decision of the House of Lords in Rookes v. Barnard,[122] which creates certain categories of cases in which such damages may be awarded. There is, in England, presently no holding as to whether exemplary damages may be awarded for a breach of confidence. The difficulty is that breach of confidence is an equitable doctrine and the ability of an equity court to award exemplary damages at all is doubtful. Rookes v. Barnard did recognise as one exception to the general rule of non-availability of exemplary damages a "deliberate infringement of a plaintiff's rights where the profit is calculated by the defendant to outweigh the possible damages payable." This exception would apply in tort in England.

5.58 Canadian courts have not followed Rookes v. Barnard. Exemplary damages have been awarded in a much wider range of cases in Canada than in England. There are Canadian cases in which awards of exemplary damages have been made in claims of breaches of ficuciary duty with respect to trade secrets.[123]

5.59 We think the existing Canadian law should be preserved for two reasons. First, as a general approach, we do not wish to disturb remedies at law or in equity where the law is settled unless there are compelling reasons for so doing. Second, as a

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[122] [1964] A.C. 1129.

[123] See e.g. Schauenberg Industries Ltd. v. Borowski (1979) 101 D.L.R. (3d) 701; 25 O.R. (2d)) 737; and see also Pro Arts, Inc. v. Campus Crafts Holdings Ltd. (1980) 10 B.L.R. 1.

matter of principle, it seems to us that exemplary damages may be necessary to discourage free rider behaviour. This is particularly so since the Canadian Criminal Code does not presently recognise any offence of theft of trade secrets, and an offence of theft of information is still an unresolved question. There should be some means of a court expressing disapproval of a particularly flagrant misappropriation. Otherwise, as the House of Lords recognized in Rookes, there is a real chance that potential defendants will calculate their likely liability and trade that off against gains likely to be made. The prescience of the House of Lords was subsequently demonstrated by the facts of the well known decision in Cassell v. Broome.[124] We would however limit such damages to twice the compensatory damages or account of profits as the case may be.

(iv) Royalties and Adjustments

5.60 Anglo-Canadian courts presently have power to grant damages in addition to or in lieu of an injunction. To date, that power has not been exercised in trade secret cases by ordering a defendant to make a periodic payment in the form of a royalty to the plaintiff in lieu of an injunction. U.S. courts have been asserting a power of this kind for many years.

5.61 We think, as did the Law Commission,[125] that this kind of power should be "refined and developed"[126] so as to enable a court to make a wide range of adjustments as between the

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[124] [1972] A.C. 1027.

[125] Law Comm. No. 110, paras. 6.110-6.112.

[126] Id., p. 155.

plaintiff and the defendant. Besides royalty payments in lieu of an injunction, a court should be able to order a defendant to meet the expenses incurred by a plaintiff in acquiring, developing or exploiting the trade secret and which are likely to be thrown away by the defendant's misappropriation.

(v) Delivery up and destruction orders

5.62 English and Canadian courts have always asserted the right to order a defendant to deliver up to a plaintiff or destroy any documents in which the confidential information appears. This remedy is usually ordered where a defendant is considered unreliable. We recommend that this remedy be preserved.

(vi) Ancillary relief

5.63 As a matter of caution, the legislation should provide that the normal powers of a court to exercise "incidental" relief are not diminished.

(6) A "public interest" defence

5.64 We have argued that without legal protection of trade secrets, there may be a disincentive for businesses to invest in technological development. That amounts to an assertion that the public interest requires that a particular privilege be accorded to private interests. But we also noted in Chapter 4 that we can conceive of cases where there may be a need to balance that public interest against the right of the public to have full and unimpeded access to certain kinds of information.

5.65 This problem has not been in issue in reported Canadian cases, but it has been considered by English courts on a number of occasions in relation to alleged breaches of confidence. As we noted in chapter 2, there is no dispute that under the holdings of those cases there is a defence of some kind which can be asserted by a defendant, the effect of which is to override or defeat the claim of a breach of confidence. The precise basis of the defence has been the subject of much debate. It began life as a relatively narrow defence: that there is "no confidence in an iniquity" (ie. a crime). Subsequently it was broadened to a defence of "just cause or excuse". The House of Lords has recently affirmed this extension and that it goes to "misconduct generally". Their Lordships did not however elaborate on the ultimate scope of this defence and clearly thought the matter should be dealt with on a case by case basis.[127]

5.66 Should reforming legislation preserve a defence of this kind? There seem to us to be two different situations to consider. It is possible that a trade secret might involve some kind of illegality. For instance, a trade secret recipe could conceivably include ingredients in a manner or some proportion not allowed by law. It seems quite wrong that, for instance, an investigative journalist should be exposed to civil liability for publishing these facts, although his potential liability for publication of "untrue" facts should not be watered down.

5.67 The second situation involves no illegality or reprehensible behaviour on the part of the trade secret

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[127] British Steel Corporation v. Granada Television Ltd. [1980] 3 W.L.R. 774.

originator. For one reason or another - most probably human idiosyncracy - the originator may decide to keep an important process secret and not use it at all. It seems wrong in principle that, for instance, a "cure" for cancer could be kept from mankind under a legal regime protecting trade secrets.[128] The great difficulty with this category of cases is that it is difficult to identify in the abstract all the relevant considerations which should influence such a defence. Doubtless these would include the manner in which the trade secret came into being; the nature of the trade secret; whether it had been "used" by its originator; if it had not, why there had been no usage; and the length of time the trade secret had existed.

5.68 The Law Commission, in considering these issues in relation to breach of confidence, concluded that legislation should include a broad defence of public interest.[129] The Commission's proposals also affect the burden of proof. The defendant would be required to give notice that he intends to raise "the issue of public interest," and that there was "a public interest involved in the relevant disclosure or use of the information in question." Assuming the defendant discharges this burden, "it should be for the plaintiff to establish that his interest is outweighed by the public interest in [the protection of the confidence]."[130]

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[128] But c/f Goff J. in Church of Scientology v. Kaufman [1973] R.P.C. 649.

[129] Law Comm. No. 110, para. 6.77.

[130] Id. para. 6.84 (item v).

5.69 The Law Commission's proposals attracted strong criticism from many quarters. It was said that leaving such large issues of public policy to the courts was quite undesirable and that Parliament should be able to specify in more detail what kinds of things the public have a right to know.[131]

5.70 The Law Commission's difficulties arose because it was attempting to erect a legislative scheme to cover all confidences. Hence, many potentially controversial areas such as government confidences and personal confidences might be treated by the courts as being "disclosable" in an over-riding public interest. The proposals in this Report relate only to trade secrets. It seems to us much less objectionable that courts should be entitled to consider a particular public interest which may be suggested as overriding the requirement of trade secrecy in a particular case. Most cases will, we think, come within the traditional exception against crime or fraud. We accept however that there may, in very unusual circumstances, be cases where the public interest is not served by some significant development being held from the public. We think - although we cannot be prescient - that such cases will probably relate to the non-working of a very useful process or idea. In this connection it is worth noting that the Canadian Patent Act contains compulsory licencing provisions where an issued patent is not utilised. A general public interest defence in the trade secret area could serve as the analogue of those provisions in an appropriate case. We see no need to alter the usual standard of

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[131] See Gareth Jones, Note [1982] C.L.J. 40; Bryan, Note (1982) Pub. Law 188.

proof. The public interest defence should be just another affirmative defence.

5.71 The only alternative to a public interest type defence would appear to be reliance upon the general discretion of the court with respect to the various specific remedies. For instance, if a newspaper "steals" and publishes a secret formula to prevent the common cold, a court might conceivably, in its discretion, refuse to grant an injunction restraining publication. U.S. courts have not recognised an explicit public interest defence, but the arguments with respect to an overriding public interest do seem to be reflected in the choice of remedy in some cases. Likewise, a defendant could, at least with respect to equitable remedies, invoke the plaintiff's lack of "clean hands" in some cases as a ground for refusing relief.

5.72 We think it undesirable that this indirect methodology be followed. We recommend that the legislation should embody a public interest defence. Such a defence should not be limited to instances of crime, fraud or other misconduct.

(7) The preservation of causes of action with respect to information which does not amount to a trade secret

5.73 One of the major premises on which this Report rests is that trade secrets have become a sufficiently important subject-area in their own right to warrant specific legal treatment. If that premise is accepted, the question arises as to what is to happen with respect to those cases which do not fall within our proposed definition of a trade secret. It may be,

although we do not here express any recommendation on the point, that in due course some of those other areas may also warrant specific legislative treatment. In the meantime, the proposed trade secrets legislation should make it explicit that the act does not disturb existing legal or equitable doctrine except with respect to those fact situations which come within the Act.

(8) Miscellaneous matters

(i) Preservation of secrecy

5.74 The holder of a trade secret will have legitimate concerns about the protection of that secret when litigation is commenced. First, at the interlocutory stage of the proceedings there may be requests for details of the trade secret. It is even conceivable that proceedings may be commenced as a "fishing" action rather than a genuine claim. Second, if a trial is necessary, the usual rule is that there should be a public hearing. In theory, therefore, a rival who is not already a party to the proceedings could sit in on the trial and learn the secret. How far, if at all, should the prospective statute address these issues?

5.75 As to interlocutory matters, it seems to us that the existing Rules of Court and practice provide adequate safeguards. In both patent and trade secret cases the usual rule is that where the process is claimed as being secret, the court will allow discovery only on terms that there be no further disclosure or use of the information to the prejudice of the patent or trade secret holder. There is also good authority for the proposition that there is an implied undertaking by one to whom documents are

produced not to use them for any collateral or ulterior purpose. The court can also order that a transcript be sealed.[132]

5.76 As to the trial itself, courts have sometimes ordered that all or part of the hearing be held in camera. To protect information at the conclusion of a hearing, a transcript can be ordered to be sealed.[133]

5.77 The general principle which appears to underpin all these rules and decisions is that a court presently has authority to control the conditions under which the trade secret is produced for the purposes of, and dealt with in, the course of litigation. We think that it may be useful - if only as a matter of legal convenience - to confirm that authority in the prospective statute and to provide judges with a range or alternative measures which, on application, the court might adopt to protect the trade secret during both the interlocutory stages of the case and the hearing itself. The list should not, however, be conclusive.

(ii) Limitations

5.78 Under present Alberta law, the relevant limitation periods provide that an action must be commenced within six years from the breach of contract[134] or, in the case of a breach of

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[132] See, on these points, Rules 186(1), 186(2); 200(1) and 215(2) of the Alberta Rules of Court and the authorities set out in Stevenson & Cote, Alberta Rules of Court (Annotated), pp. 208(K), 229(H 33), and 251.

[133] American-Can Dev. Corporation v. Teletime Saver (1973) 1 C.P.C. 230. (Ont. H.C.).

[134] R.S.A. 1980, Chap. L-5, s. 4(1)(c).

confidence, within six years from the discovery of the cause of action.[135] If no specific limitation period were provided in the proposed legislation, the relevant limitation period would be six years after the cause of action arose.[136]

5.79 We think an appropriate limitation period for this tort would be two years from the date the claimant knew or ought to have known of a basis for the claim.

(iii) Contributory Negligence

5.80 There may be a question as to whether contributory negligence statutes[137] would, or should, apply to the new tort. Assuming for the purpose of discussion that such statutes might apply, if the tort is to be constituted on a misappropriation by improper means, and if the claimant must, as a pre-condition of relief have taken reasonable steps to safeguard the secret, then it would seem appropriate to exclude the operation of the contributory negligence act. On the other hand, if the tort is to be constituted by an unauthorized taking, it might be appropriate to provide a means of "adjusting" the loss as between the plaintiff and the defendant. We have recommended a broad discretion with respect to remedies, but it may be that such a discretion is not, by itself, an adequate mechanism in this instance.

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[135] Id., s. 4(1)(e).

[136] Id., s. 4(1)(g).

[137] See, in Alberta, Contributory Negligence Act, R.S.A. 1980 Chap. C-23.

5.81 Our present thinking is that it would be desirable to clarify, for the sake of consumers, the question of whether the contributory negligence statute applies or not, but whether the answer should be affirmative or negative turns upon the constituent elements of the tort which are finally decided upon.

(iv) Disclosure required by statute or court

5.82 The statute should make it plain that it does not diminish a person's responsibility to provide information lawfully required to be provided under another statute or by a court. Compulsion of this kind should operate as a defence under statute.

(v) Contempt of court

5.83 As a matter of caution, it may be as well to expressly preserve the jurisdiction of the court with respect to contempt of court. The statutory action is intended as a new, independent cause of action and is not intended to affect the law relating to the improper disclosure of information a court may otherwise order be kept private.

(vi) Survival of the action

5.84 Since the basis of the action is that of a statutory tort, the existing rules as to survival of an existing cause of action in tort in Alberta would apply.

(9) Uniformity

5.85 The provinces have jurisdiction with respect to property and civil rights. In theory, therefore, each province

could decide for itself what, if any, civil cause of action there should be for misappropriation of trade secrets. At present, because such cases are decided on principles of law of general application which are recognised in all the common law provinces there is de facto uniformity of law in this subject area.

5.86 We think that uniformity of law in this subject-area is desirable and should be maintained if possible. First, there is a legal convenience factor. If each province had a different law, knowing what the law is becomes more difficult, and complex conflicts of law problems are created in some cases. Further, the litigated cases thrown up in one jurisdiction become helpful authority in other jurisdictions. Second, there is commercial convenience. Businesses and individuals might well have to engage in some re-assessment of their business planning if the law is more favourable to them in one locality than another. Third, since technology licencing also has international aspects, it may be important for non-Canadian parties to such agreements to be able to deal with Canadians interests with some confidence as to Canadian law in this area.

5.87 Achieving uniformity with respect to legislation in private law areas in Canada is not easy and would likely take some time. There are mechanisms - principally the Canadian Uniformity Conference - which might be invoked to promote uniform legislation. We do not think it necessary at this time to suggest any specific process by which uniformity might best be advanced. This Report is a tentative, consultative document. If it should be apparent that there is a measure of support for the proposals contained in it, the uniformity issue will need to be addressed

in some manner in due course. We also note the clear interest of the federal government in this subject area. We simply note that the ideal solution would be federal-provincial agreement on legislation which was thought to be suitable for Canadian needs, and the uniform enactment of that legislation by the provinces.

e. Constitutional Issues

5.88 In our view, the pith and substance of the draft Act attached to this Report falls squarely within s. 92(13)of the Constitution Act, 1867 and would therefore be constitutionally valid if enacted by Alberta, or any other province.

CHAPTER 6

A REVIEW OF THE ISSUES

6.1 In this Chapter, we set out, as a matter of convenience, the principal questions raised by this Report. In inviting comment on these questions we do not intend in any way to foreclose debate or responses on any aspect of this Report which other persons may consider relevant. The following scheme is a check-list and is designed to facilitate a response by any person who wishes to comment on the proposal, or the draft legislation. The questions are grouped under various sub-headings.

6.2 The nature and extent of misappropriation of trade secrets in Canada.

(1) Do the four categories of information suggested in the Report (viz., specific product secrets; technological secrets; strategic business information; compilations of information or data) cover all the areas which have caused difficulty in practice?

(2) Are there specific industry problems which are not addressed adequately, or at all, by the Report?

(3) Are you able to provide evidence of specific instances of trade secret misappropriations which were not litigated? If such instances were not litigated, what was the reason for no legal action being taken? (e.g. fear of publicity, expense, lack of knowledge of the relevant law, no legal remedy?) Arrangements

can be made for confidential discussions where sensitive information may be involved.

6.3 Difficulties with the existing law

(1) Is the outline of the existing law accurate?

(2) Have we underestimated the capacity of the existing body of civil case law for judicial development in response to misappropriation of trade secrets?

6.4 The justification for legal protection of trade secrets

(1) Do you agree with the justification(s) for legal protection of trade secrets set out in the Report?

(2) Are there other reasons, not stated in the Report, for affording such protection?

(3) Are the countervailing considerations identified in the Report (viz. mobility of labour, and freedom of information) complete? Are there other considerations we have not considered?

6.5 The case for legislation

(1) Is there a case for some kind of statutory cause of action for misappropriation of a trade secret?

(2) If so, is the Report's emphasis on the desirability of uniform legislation well founded?

6.6 A statutory tort

(1) Is the concept of a statutory tort a suitable vehicle for addressing the categories of misappropriation identified in

the Report?

(2) If not, what other approach or concept would you suggest?

6.7 The definition of a "trade secret"

(1) The draft legislation contains two definitions of a "trade secret". Do you have a preference for one definition over the other? Why?

(2) Do you have any alternative definition of a "trade secret" which you would wish to see employed?

(3) Can you identify any particular problems which would be raised by the two definitions in the draft legislation?

6.8 The definition of "misappropriation"

(1) Should a statutory tort be constructed on the footing that an appropriation must be by improper means for it to become misappropriation, or should it be sufficient that there is a lack of authority for the appropriation?

(2) If the former, does the definition of "improper means" adequately cover the instances and practices which ought to be circumscribed by the act?

(3) Can you identify problems which might arise under either approach and which have not been identified in the Report?

(4) The draft legislation treats four matters as not in an event amounting to "misappropriation": a legitimate purchase of a trade secret, reverse engineering, independent development of

the secret, and the employment of general skills built up by an employee. Do you agree with this treatment of each of these instances?

6.9 The position of good faith acquirers

(1) The Report suggests that if the prospective tort is to be constituted on an appropriation by improper means, the requirement of knowledge of the existence of a trade secret, together with a remedial discretion in the court should be sufficient protection for third party acquirers of a trade secret. Do you agree?

(2) The Report alternatively suggests that if the prospective tort is to be constituted on an appropriation of a trade secret without authority, more specific remedial directions may be appropriate. Do you agree? Or, should the statute go further, and provide for a defence of bona fide purchaser for value?

6.10 Remedies

(1) Do you agree with the general approach of the draft legislation of providing an eclectic range of remedies?

(2) If not, what general approach should be adopted?

(3) Should a court have the kind of power to make adjustments set out in s. 9 of the draft legislation?

(4) Should a court have power to award exemplary damages?

(5) Should a power to award exemploary damages be limited in the manner suggested by the draft legislation (s. 8)?

6.11 A public interest defence

(1) Should there be a defence that there is some other public interest or interests which over-rides the public interest in preservation of a trade secret in a particluar case?

(2) If not, should this issue be allowed to arise at the remedial level?

6.12 Preservation of governmental ability to gather information

(1) The draft legislation endeavours to protect the ability of both levels of government to prosecute crime or protect the security of the state (see s. 2(3)(a)). Is that provision adequately drawn to exclude these activities from liability under the Act?

6.13 Preservation of trade secrets during the pendency and disposal of litigation

(1) Are the provisions of s. 11 adequate to enable a court to preserve the existence of a trade secret at both the interlocutory and trial stages of litigation?

6.14 The relationship of the prospective statutory tort to other doctrines of law affecting trade secrets

(1) Should the statute exclude contractual undertakings with respect to trade secrets from its operation?

(2) Should the statute leave the law relating to breaches of confidence not involving a trade secret intact?

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February 1984

PART II

TRADE SECRETS PROTECTION ACT

DEFINITIONS

[Explanatory Note: The definitions set out hereafter assume two different models. Alternative A assumes a statute which would, with only limited exceptions, reach all non-authorised takings of a trade secret. Alternative B assumes a statute which would address a misappropriation by improper means.]

Alternative A.

1. In this Act,

(a) "Court" means the Court of Queen's Bench

(b) "individual" means a natural person

(c) "misappropriation" means acquisition, disclosure or use of a trade secret of another without express or implied authority or consent, unless such trade secret was arrived at by independent development, reverse engineering, or was obtained from another person with a right to disclose the trade secret

(d) "person" means a natural person, corporation, estate, trust, partnership, association, joint venture, government, governmental agency, or any other legal or commercial entity

(e) "trade secret" means business or technical information, including but not limited to a formula, pattern, compilation of information, program, device, method, technique or process, that:

(i) derives independent economic value, actual or potential, from not being generally known, or readily ascertainable through independent development or reverse engineering by persons who can obtain economic value from its disclosure or use, and

(ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

(e) (alternative) "trade secret" means any formula,

pattern, compilation of information, program, device, method, technique or process which:

(i) is, or may be used in a business, and

(ii) gives the holder thereof an advantage over competitors who do not know or use it, and

(iii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

Comment

1. For the definition of "misappropriation" see the Report at paras. 5.34 - 5.43.

2. For the definition of a "trade secret" see the Report at paras. 5.23 - 5.33.

Alternative B.

1. In this Act,

(a) "Court" means the Court of Queen's Bench.

(b) "improper means" includes the acquisition of a trade secret by a person

(i) as a result of doing any of the following acts without authority (express or implied), namely

(A) taking, handling or interfering with any document, record, model or other thing containing the trade secret,

(B) taking, handling or intefering with anything in which any such thing as is mentioned in sub-paragraph (A) is for the time being kept,

(C) (without prejudice to the generality of the foregoing) using or interfering with any computer or data retrieval mechanism,

whether, as regards any such act, the absence of authority relates to his doing it at all or only to the manner or purpose in or for which he in fact does it; or

(ii) as a result of a breach of confidence, or

(iii) as a result of using any violence, menace, bribery, blackmail or deception; or

(iv) as a result of being somewhere he has no authority (express or implied) to be; or

(v) as a result of the use of

(A) a device made or adapted primarily for the purpose of surreptitiously carrying out the surveillance of persons, their activities, communications or property, or

(B) any other technical device capable of being used for carrying out such surveillance, whether surreptitiously or overtly,

provided that (in either case) he would not in the circumstances have acquired the information but for his use of the device in question,

but does not include a trade secret arrived at by independent development, or reverse engineering or lawfully obtained from another person with a right to disclose the same.

(c) "individual" means a natural person.

(d) "misappropriation" means:

(i) acquisition of a trade secret of another by a person who knows or ought to have known that the trade secret was acquired by improper means; or

(ii) disclosure or use of a trade secret of another without express or implied consent by a person who

(A) used improper means to acquire knowledge of the trade secret; or

(B) at the time of disclosure or use, knew or ought to have known that his knowledge of the trade secret was derived from or through a person who had utilized improper means to acquire it; or

(C) before a material change of his position, knew or ought to have known that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

(e) "person" means a natural person, corporation, estate, trust, partnership, association, joint venture, government, governmental subdivision or agency, or any other legal or commercial entity.

(f) "trade secret" means information, including a formula,

pattern, compilation, program, device, method, technique, or process, that:

(i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and

(ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

(f) (alternative) "trade secret" means any formula, pattern, compilation of information, program, device, method, technique or process which:

(i) is, or may be used in a business, and

(ii) gives the holder thereof an advantage over competitors who do not know or use it, and

(iii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

COMMENT

1. For the definition of "misappropriation" see the Report at paras. 5.34-5.43.

2. For the definition of a "trade secret" see the Report at paras. 5.23-5.33.

APPLICATION

2.(1) The Crown is bound by this Act.

(2) Nothing in this Act affects

(a) a contractual obligation to treat a trade secret as confidential which is enforceable by proceedings for breach of contract; or

(b) proceedings for contempt of court; or

(c) any principles of equity or rules of the common law by virtue of which obligations of confidence arise in respect of the acquisition disclosure or use of information which does not amount to a trade secret within the meaning of this Act.

(3) Nothing in this Act imposes on any person any liability under this Act where the trade secret was acquired by him

(a) in the course of the lawful exercise by him of any official function to acquire information for the purposes of protecting the security of the Dominion of Canada, or of preventing, detecting or investigating crime, or

(b) in pursuance of any statutory provision.

(4) Nothing in this Act imposes on any person any liability under this Act with respect to information which

(a) is acquired by an individual in the course of his work (whether under a contract of employment or as an independent contractor or otherwise), and

(b) is of such a nature that the acquisition of that information by him amounts to no more than an enhancement of the personal knowledge, skill or

experience used by him in the exercise of his calling.

5. The Contributory Negligence Act [applies/does not apply] to proceedings for misappropriation of a trade secret.

Comment

1. As to s. 2(2)(a) see paras. 5.15 - 5.20, Report.

2. As to s. 2(2)(b) see para. 5.71, Report.

3. As to s. 2(2)(c) see para. 5.66, Report.

4. As to s. 2(3) see para. 5.70, Report.

5. As to s. 2(4) see paras. 4.30 - 4.31 and 5.34 - 5.36, Report.

6. As to s. 2(5) see paras. 5.80 - 5.81.

MISAPPROPRIATION ACTIONABLE

3.(1) Misappropriation of a trade secret [by improper means] is a tort and, subject to the provisions of this Act, proceedings may be brought in respect of such misappropriation by any person entitled to the benefit of the trade secret in like manner as any other proceedings in tort.

(2) Proceedings brought by virtue of this section are referred to in this Act as proceedings for misappropriation of a trade secret.

Comment

1. The words in brackets are required if the definitions in s.1 Alternative B are adopted.
2. See paras. 5.33 - 5.34, Report.

REMEDIES

4.(1) In any proceedings for misappropriation of a trade secret the court may, subject to sub-sections 2 [and 3] hereof,

(a) grant an injunction in accordance with section 5; or

(b) award damages in accordance with section 6; or

(c) order an account of profits under section 7, or

(d) award exemplary damages under section 8; or

(e) make an adjustment order under section 9; or

(f) order the defendant to deliver up or destroy anything in which the trade secret to which the misappropriation relates is contained; or

(g) do any one or more of those things.

(2) The court shall not exercise its discretion to award both compensatory damages and an account of profits in such manner as to allow a plaintiff to recover twice for the same loss.

[The following sub-section is recommended if the statute proceeds upon the basis of the definitions under s.1 Alternative A, supra.]

(3) Where a person in good faith derives knowledge of a trade secret from or through misappropriation or by mistake, the court shall either

(a) enjoin that person from disclosing the trade secret and award damages under section 6 against that person from the time such person knows or ought to have known of the existence of the trade secret, or

(b) if that person has substantially changed his position

in good faith reliance upon the availability of the trade secret for future use, he shall not be enjoined from using the trade secret, but may be required to pay a royalty or make other adjustment in accordance with section 9.

(4) Nothing in this section prejudices any jurisdiction of the court to grant ancillary or incidential relief.

Comment

1. As to s. 4(1) see para. 5.53, Report.

2. As to s. 4(2) see paras. 5.55 - 5.56, Report.

3. As to s. 4(3) see paras. 5.50 - 5.52, Report.

4. As to s. 4(4) see para. 5.63.

INJUNCTIONS

5.(1) The court may enjoin apprehended, threatened or actual misappropriation of a trade secret.

(2) Upon application to the Court, an injunction shall be terminated when the trade secret has ceased to exist, but the injunction may be continued for such additional period of time as the court thinks is reasonable in order to eliminate any commercial advantage that would otherwise accrue to the defendant from the misappropriation.

Comment

1. As to s. 5(2) see para. 5.54, Report.

DAMAGES

6. The plaintiff may recover damages for the loss caused by the misappropriation of a trade secret.

Comment

1. See paras. 5.55 - 5.56, Report.

ACCOUNT OF PROFITS

7. The court may order the defendant to account to the plaintiff for any profits that have accrued, or that subsequently may accrue to the defendant by reason or in consequence of the misappropriation of a trade secret.

Comment

1. See paras. 5.55 - 5.56, Report.

EXEMPLARY DAMAGES

8. The court may award exemplary damages for misappropriation of a trade secret in an amount not exceeding twice:

(i) the damages awarded under section 6, or

(ii) the sum found to be due to the plaintiff with respect to an account of profits under section 7,

as the case may be.

Comment

See para. 5.57, Report.

ADJUSTMENT ORDERS

9.(1) The court may make an adjustment order regulating future exploitation of the trade secret by the defendant, or by both the plaintiff and defendant.

(2) An adjustment order under subsection (1) may include any or all of the following

(a) payment to the plaintiff of a royalty with respect to the future use by the defendant of the misappropriated trade secret in such amount and upon such terms as the court thinks just;

(b) contribution by the defendant to the plaintiff for expenses incurred by the plaintiff in connection with lawfully acquiring or developing the trade secret, and which are liable to be wasted by reason of the defendant being permitted to exploit the trade secret in future;

(c) a determination of any incidental question relating to the extent to which both the plaintiff and the defendant shall be free to exploit the trade secret in future and the rights and liabilities of each.

Comment

1. See paras. 5.60 - 5.61, Report.

DEFENCES

10.(1) In any proceedings for misappropriation of a trade secret it is a defence to prove that the disclosure was required to be made by a court in pursuance of any power to order the disclosure of information.

(2) In any proceedings for misappropriation of a trade secret the defendant shall not be liable to the plaintiff in any respect of any acquisition, disclosure or use of a trade secret if he satisfies the court that

(a) in view of the content of the trade secret, there was, or (in the case of an apprehended acquisition disclosure or use) will be, at the time of the acquisition disclosure or use a public interest or interests involved in the trade secret being so acquired disclosed or used, and

(b) that such public interest or interests outweighs the public interest involved in upholding the trade secret.

(3) When balancing the public interests involved for the purposes of subsection (2) the court shall have regard to all the circumstances of the case, including -

(a) the nature of the trade secret;

(b) the manner and circumstances under which the trade secret was acquired, disclosed or used by the defendant;

(c) the presence of any crime, fraud or other misconduct with respect to the creation, composition or utilisation of the trade secret;

(d) the extent and nature of the particular disclosure or

use of the trade secret in issue as compared with the extent and nature of the disclosure or use which appears to be justified by the public interest on which the defendant relies.

(4) Defences generally available in tort proceedings are available in proceedings for misappropriation of a trade secret.

Comment

1. As to s. 10(1) see para. 5.82, Report.

2. As to s. 10(2) and (3) see paras. 5.64 - 5.72, Report.

3. As to s. 10(4) see para. 5.22.

PRESERVATION OF SECRECY

11.(1) In any proceedings under this Act, the court may, at any time, upon application, make an order directing by what means the secrecy of a trade secret at issue in the proceedings shall be preserved.

(2) Without limiting the generality of subsection (1), the court may

(a) hold in camera hearings; or

(b) order that all or any of the records of the proceedings be sealed; or

(c) order any person involved in the proceedings not to disclose an alleged trade secret without prior court approval; or

(d) restrict disclosures of a trade secret to a party's counsel.

Comment

1. See paras. 5.74 - 5.77, Report.

LIMITATIONS

12.(1) Proceedings for misappropriation of a trade secret must be commenced within two years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered.

(2) For the purposes of this section, a continuing misappropriation constitutes a single claim.

Comment

1. See para. 5.71 - 5.79, Report.

COMMENCEMENT

13.(1) This Act shall come into force at the end of the period of three months beginning with the day on which it is passed.

(2) This Act does not apply to misappropriation of a trade secret occurring prior to the effective date.

APPENDIX A

UNIFORM TRADE SECRETS ACT

Sec.
1. Definitions.
2. Injunctive Relief.
3. Damages.
4. Attorney's Fees.
5. Preservation of Secrecy.
6. Statute of Limitations.
7. Effect on Other Law.
8. Uniformity of Application and Construction.
9. Short Title.
10. Severability.
11. Time of Taking Effect.
12. Repeal.

Be it enacted.....

1. [Definitions]

As used in this Act, unless the context requires otherwise:

(1) "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means;

(2) "Misappropriation" means:

(i) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or

(ii) disclosure or use of a trade secret of another without express or implied consent by a person who

(A) used improper means to acquire knowledge of the trade secret; or

(B) at the time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was

(I) derived from or through a person who had utilized improper means to acquire it;

(II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or

(III) derived from or through a person who

owed a duty to the person seeking relief to maintain its secrecy or limit its use; or

(C) before a material change of his position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

(3) "Person" means a natural person, corporation, business trust, estate, trust, partnership, association, joint venture, government, governmental subdivision or agency, or any other legal or commercial entity.

(4) "Trade secret" means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

(i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and

(ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

2. [Injunctive Relief]

(a) Actual or threatened misappropriation may be enjoined. Upon application to the court, an injunction shall be terminated when the trade secret has ceased to exist, but the injunction may be continued for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation.

(b) If the court determines that it would be unreasonable to prohibit future use, an injunction may condition future use upon payment of a reasonable royalty for no longer than the period of time the use could have been prohibited.

(c) In appropriate circumstances, affirmative acts to protect a trade secret may be compelled by court order.

3. [Damages]

(a) In addition to or in lieu of injunctive relief, a complainant may recover damages for the actual loss caused by misappropriation. A complainant also may recover for the unjust enrichment caused by misappropriation that is not taken into account in computing damages for actual loss.

(b) If willful and malicious misappropriation exists, the court may award exemplary damages in an amount not exceeding twice any award made under subsection (a).

4. [Attorney's Fees]

If (i) a claim of misappropriation is made in bad faith, (ii) a motion to terminate an injunction is made or resisted in bad faith, or (iii) willful and malicious misappropriation exists, the court may award reasonable attorney's fees to the prevailing party.

5. [Preservation of Secrecy]

In an action under this Act, a court shall preserve the secrecy of an alleged trade secret by reasonable means, which may include granting protective orders in connection with discovery proceedings, holding in-camera hearings, sealing the records of the action, and ordering any person involved in the litigation not to disclose an alleged trade secret without prior court approval.

6. [Statute of Limitations]

An action for misappropriation must be brought within 3 years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered. For the purposes of this section, a continuing misappropriation constitutes a single claim.

7. [Effect of Other Law]

(a) This Act displaces conflicting tort, restitutionary, and other law of this State pertaining to civil liability for misappropriation of a trade secret.

(b) This Act does not affect:

(1) contractual or other civil liability or relief that is not based upon misappropriation of a trade secret; or

(2) criminal liability for misappropriation of a trade secret.

8. [Uniformity of Application and Construction]

This Act shall be applied and construed to effectuate its general purpose to make uniform the law with respect to the subject of this Act among states enacting it.

9. [Short Title]

This Act may be cited as the Uniform Trade Secrets Act.

10. [Severability]

If any provision of this Act or its application to any person or circumstances is held invalid, the invalidity does not affect other provisions or applications of the Act which can be given effect without the invalid provision or application, and to this end the provisions of this Act are severable.

11. [Time of Taking Effect]

This Act takes effect on _____, and does not apply to misappropriation occurring prior to the effective date.

12. [Repeal]

The following Acts and parts of Acts are repealed:

(1)

(2)

(3)

APPENDIX B

Breach of Confidence

DRAFT

of a BILL to

Impose obligations of confidence giving rise to liability in tort on persons acquiring information in certain circumstances and otherwise to amend the law of England and Wales as to civil liability for the disclosure or use of information and for connected purposes.

Be it enacted by the Queen's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:--

Preliminary

1.--(1) New statutory obligations of confidence. The provisions of this Act have effect for the purpose of--

(a) providing for obligations of confidence, within the meaning of section 8, to be imposed on persons acquiring information in the circumstances mentioned in sections 3 to 6; and

(b) providing for proceedings to be brought under this Act in respect of breaches of such obligations, and for the remedies available in those proceedings.

(2) In consequence of the provisions of this Act, any principles of equity or rules of the common law by virtue of which obligations arise in respect of the acquisition of information in circumstances of confidence, or by virtue of which relief may be granted in respect of the disclosure or use of information in breach of confidence, are (subject to subsection (3)) abolished.

(3) Nothing in subection (2) has effect in

relation to--

(a) contractual obligations to treat information confidentially so far as enforceable by proceedings for breach of contract; or

(b) proceedings for contempt of court.

2.--(1) Information to which the Act applies. An obligation of confidence can arise under this Act only with respect to information which is not in the public domain; and references to information in any of sections 3 to 6 are accordingly references to such information.

(2) Information in the public domain includes information which is public knowledge or accessible to the public (whether or not on payment of a fee or subject to any other restriction); but, for the purposes of this Act, information which is capable of being extracted from any matter in the public domain (whether a document, product, process or anything else) is not in the public domain on that ground alone if such extraction would require a significant expenditure of labour, skill or money.

(3) For the purposes of this Act, information not already in the public domain which is orally disclosed in such a way as to be generally available to those present at the proceedings of any court--

(a) does not come into the public domain if the court is sitting in private; but

(b) comes into the public domain if the court is in open session and publication of the information is not prohibited in the circumstances by any statutory provision or by an order or direction of the court (having the power to make such an order or direction).

(4) In subsection (3) "court" includes a judge, tribunal and any person exercising the functions of a court, judge or tribunal; and the reference to a court sitting in private includes a court sitting in camera or in chambers.

Circumstances in which obligations of confidence arise

3.--(1) Undertaking to treat information confidentially. A person who has acquired information from another person shall owe the other an obligation of confidence under this section with respect to the information if--

(a) he has expressly undertaken to the other to treat the information, or a description of information within which it falls, confidentially; or

(b) an undertaking by him to the other to that effect is, in the absence of any contrary indication given by him to the other, to be inferred from the nature of any relationship between the parties or from his conduct in relation to the other.

(2) A person who has acquired information on behalf of another person shall, if either paragraph (a) or (b) of subsection (1) is applicable, owe to the other person an obligation of confidence under this section with respect to the information.

(3) For the purposes of this section it is immaterial whether the undertaking given by a person (expressly or by inference) was given at the time when he acquired the information in question or at some other time, whether before or afterwards.

(4) A person who has acquired information from another person and is, or in all the circumstances ought to be, aware that the information was supplied by the other on behalf of a third person shall be treated for the purposes of this section as having acquired the information from that third person as well.

(5) It is declared that subsection (1) applies in relation to the following, namely--

(a) the acquisition by a person from another person of information supplied to him by the other in accordance with any requirement to do so imposed by or by virtue of any statutory provision, or so

supplied in connection with an application under a statutory provision for the grant of any benefit or permission:

(b) an undertaking within paragraph (a) or (b) of subsection (1) which is an express or implied obligation of a contract.

4.--(1) Acquisition of information disclosed in or for purposes of legal proceedings. Where information, or any document or other matter containing information, is required to be disclosed to a person for the purposes of any legal proceedings (pending or otherwise)--

(a) by an order or direction of a court, or

(b) by rules of court,

then, on acquiring the information as a result of it or the matter containing it being disclosed in pursuance of that order or direction or those rules, that person or any other person to whom the disclosure is made on his behalf shall owe an obligation of confidence under this subsection with respect to the information to the person required to make the disclosure.

(2) Where information is disclosed in legal proceedings--

(a) at a time when the court is sitting in private otherwise than in chambers, or

(b) if this subsection applies to that disclosure in accordance with subsection (3), at a time when the court is sitting in chambers,

any person who thereupon acquires the information shall owe an obligation of confidence under this subsection with respect to the information to the person making the disclosure.

(3) Subsection (2) applies to a disclosure of information at a time when the court is sitting in chambers in the following cases, namely--

(a) where the proceedings relate to a breach of an obligation of confidence under this Act or to a breach of a contractual obligation to treat information confidentially and the information disclosed is material to the proceedings;

(b) where the proceedings relate to any secret process, knowhow, discovery or invention and the information disclosed is material to the proceedings;

(c) where it appears to the court proper that the information disclosed should be protected by means of an order under this paragraph and the court accordingly by order directs that subsection (2) is to apply to the disclosure.

(4) If a person acquiring information as mentioned in subsection (1) or (2) is or in all the circumstances ought to be aware that the person in whose favour an obligation of confidence arises under that subsection made the disclosure in question on behalf of a third person, the person acquiring the information shall owe an obligation of confidence under that subsection with respect to it to the third person as well.

(5) In this section "court" has the meaning given to section 2(4); and the reference in subsection (2)(a) of this section to a court sitting in private includes a court sitting in camera.

(6) Nothing in this section prejudices the exercise by any court of any power to prohibit or punish contempt of court (whether in relation to its own proceedings or otherwise).

5.--(1) Improper acquisition of information. Subject to the provisions of this section, a person who improperly acquires information from another person shall owe an obligation of confidence under this section with respect to the information--

(a) to the person from whom the information is so acquired, and

(b) if that person is at the time when

it is so acquired holding it on behalf of some other person, to that other person as well.

(2) For the purposes of this section a person acquires information improperly if--

(a) he acquires it as a result of doing any of the following acts without authority (express or implied), namely--

(i) taking, handling or interfering with any document, record, model or other thing containing the information,

(ii) taking, handling or interfering with anything in which any such thing as is mentioned in sub-pragraph (i) is for the time being kept,

(iii) (without prejudice to the generality of the foregoing) using or interfering with any computer or data retrieval mechanism,

whether, as regards any such act, the absence of authority relates to his doing it at all or only to the manner or purpose in or for which he in fact does it; or

(b) he acquires it as a result of using any violence, menace or deception; or

(c) he acquires it while somewhere where he has no authority (express or implied) to be; or

(d) he acquires it by means of the use of--

(i) a device made or adapted primarily for the purpose of surreptitiously carrying out the surveillance of persons, their activities, communications or property, or

(ii) subject to subsection (3), any other technical device capable of being used for carrying out such surveillance, whether

surreptitiously or overtly,

provided that (in either case) he would not in the circumstances have acquired the information but for his use of the device in question.

(3) A person's acquisition of information by means of the use of a device within subsection (2)(d)(ii) is not improper for the purposes of this section if a reasonable man in the position of the person from whom the information is acquired would have appreciated the risk of, and taken precautions adequate to prevent, its being acquired by means of the use of a device of the kind in question; and nothing in that sub-paragraph is to be read as referring to a device designed to bring vision or hearing so far as possible up to a normal standard.

[Editorial note: There is a misprint in Law Comm. 110. The beginning of ss.4 is missing.]

interfering with a device mentioned in subsection (2)(a)(iii), any person by or on behalf of whom the information was supplied to the device shall be regarded for the purposes of subsection (1) as a person from whom the information is acquired (and subsection (1)(b) accordingly does not apply).

(5) Where two or more persons ("participators") have jointly participated in the acquisition of information from another person, any participator--

(a) who has personally acquired the information from the other person, and

(b) whose acquisition of it was not improper under subsection (2) apart from this subsection,

shall nevertheless owe an obligation of confidence under this section to the other person with respect to the information as from such time as the participator is aware, or ought in all the circumstances to be aware, of any act done by any other participator in connection with the acquisition of the information which, if done by the former participator, would have rendered his acquisition of the information improper under subsection (2).

(6) In any case where a person's acquisition of information falls within subsection (2) but the information was acquired by him--

(a) in the course of the lawful exercise by him of any official function to acquire information for the purposes of protecting the security of the State, or of preventing, detecting or investigating crime, or

(b) in pursuance of any statutory provision,

nothing in this section or section 6 imposes on him or on any other person directly or indirectly acquiring it from him any liability under this Act in respect of the disclosure or use of that information in so far as it is disclosed or used--

(i) for any such purposes as are referred to in paragraph (a) of this subsection or for the purpose of bringing any related legal proceedings, or

(ii) for any purpose expressly or impliedly authorised, in relation to information acquired in pursuance of the statutory provision referred to in paragraph (b) of this subsection, by that or any other such provision.

6.--(1) Acquisition by third party of information subject to an obligation of confidence. If, while an obligation of confidence under section 3, 4 or 5 is owed by any person ("the original acquirer") to another person with respect to any information--

(a) the information is acquired from the original acquirer (by whatever means and whether directly or, through successive acquisitions, indirectly) by any third person, and

(b) the third person becomes aware, or ought in all the circumstances to have become aware, of the material facts or circumstances giving rise

to the obligation of confidence owed by the original acquirer or otherwise that an obligation of confidence has arisen with respect to the information under the preceding provisions of this Act,

then, as from the relevant time under subsection (2), the third person shall owe an obligation of confidence under this section with respect to the information to the other person mentioned above.

(2) The relevant time referred to in subsection (1) is whichever is the later of the following, namely the time when the third person acquires the information and the time when he becomes, or ought to have become, aware as mentioned in paragraph (b) of that subsection.

(3) Where a person dies (or, if not an individual, ceases to exist) while owing an obligation of confidence under section 3, 4 or 5 with respect to any information, then, unless that obligation of confidence thereupon ceases to have effect in accordance with subsection (2) of section 9, the information shall for the purposes of this section continue to be subject to that obligation of confidence, as if it were still owed by that person, until such time as that person would have been released from it by virtue of subsection (1) or (2) of section 9 if still alive or (as the case may be) still in existence.

7. No obligation of confidence where information acquired in course of work merely enhances personal skills, etc. Nothing in the preceding provisions of this Act has the effect of imposing an obligation of confidence on any individual with respect to any information which--

(a) is acquired by him in the course of his work (whether under a contract of employment or as an independent contractor or otherwise), and

(b) is of such a nature that the acquisition of it by him amounts to no more than an enhancement of the personal knowledge, skill or experience used by him in the exercise of his calling.

8.--(1) Duties arising out of an obligation of confidence. For the purposes of this Act an obligation of confidence owed under any provision of this Act with respect to any information shall, subject to subsections (3) and (4), impose the following duties on the person who owes the obligation, namely--

(a) a duty not to disclose or use the information except to the extent (if any) to which he is for the time being expressly or impliedly authorised to do so by the person to whom the obligation is owed; and

(b) a duty to take reasonable care to ensure that the information is not disclosed or used except to the extent mentioned in paragraph (a).

(2) Accordingly, any reference in this Act to a breach of an obligation of confidence is a reference to an act or omission in breach of one or other of the duties subsisting with respect to the information in question in accordance with subsection (1).

(3) Nothing in subsection (1)--

(a) prevents a person who owes an obligation of confidence under section 3 with respect to information supplied as mentioned in subsection (5)(a) of that section from disclosing or using it to such extent as is, in relation to information supplied in pursuance of the statutory provision in question, expressly or impliedly authorised by or by virtue of that or any other statutory provision;

(b) prevents a person who owes an obligation of confidence under subsection (1) or subsection (2) of section 4 from disclosing or using the information in question for the purposes of the proceedings referred to in that subsection; or

(c) prevents a person who owes an obligation of confidence under section 6 with respect to information directly or indirectly

acquired from a person such as is referred to in paragraph (a) or (b) of this subsection from disclosing or using the information to the extent to which the latter may do so by virtue of that paragraph.

(4) Where a person owing an obligation of confidence under section 3, 4 or 5 with rspect to any information has been expressly or impliedly authorised by the person to whom the obligation is owed to disclose or use the information to any extent, nothing in subsection (1) of this section prevents a person who owes an obligation of confidence under section 6 by virtue of that obligation of confidence from disclosing or using the information to an extent which will not result in a more extensive disclosure or use of the information than has been so authorised.

9.--(1) Termination of obligations of confidence. A person who, under any provision of this Act, owes another person an obligation of confidence with respect to any information shall cease to owe the other person an obligation of confidence with respect to the information--

(a) if he is expressly or impliedly released by the other person from such an obligation; or

(b) in so far as an order of the court under section 15(2) has the effect of releasing him from such an obligation; or

(c) if the information comes into the public domain.

(2) Where in the case of an obligation of confidence under section 3 the relevant undertaking within subsection (1)(a) or (b) of that section was given, expressly or by inference, for a particular period of time (including a period expiring on the occurrence of any event), that obligation of confidence, and any obligation of confidence owed under section 6 by virtue of it, shall cease to be owed at such time as that period expires.

(3) For the purposes of subsection (1)(c) of this section it is immaterial

whether the person responsible for the information coming into the public domain was the person to whom the obligation of confidence was owed, the person who owed it or some other person.

(4) Subsections (1) and (2) of this section are without prejudice to--

(a) any claim in respect of a person's breach of an obligation of confidence which was committed before, or as a consequence of which, he ceased to owe that obligation in accordance with this section;

(b) the power of the court to grant relief in respect of such a breach in the circumstances mentioned in section 16.

10.--(1) Proceedings for breach of confidence. A breach of an obligation of confidence owed under any of the preceding provisions of this Act is a tort and, subject to the following provisions of this Act, proceedings may be brought in respect of such a breach by any person to whom the obligation is owed in like manner as any other proceedings in respect of a tort.

(2) Proceedings brought by virtue of this section are referred to in this Act as proceedings for breach of confidence.

11.--(1) Plaintiff's claim liable to fail unless upholding of confidentiality is in public interest. A defendant in proceedings for breach of confidence shall not be liable to the plaintiff in respect of any disclosure or use of information by the defendant in breach of an obligation of confidence if--

(a) the defendant raises the issue of public interest in relation to that disclosure or use in accordance with subsection (2); and

(b) the plaintiff is unable to satisfy the court that the public interest relied on by the defendant under that subsection is outweighed by the public interest involved in upholding the confidentiality of the information.

(2) For the purposes of subsection (1) a defendant raises the issue of public interest in relation to a disclosure or use of information if he satisfies the court that, in view of the content of the information, there was, or (in the case of an apprehended disclosure or use) will be, at the time of the disclosure or use a public interest involved in the information being so disclosed or used.

(3) A public interest may be involved in the disclosure or use of information notwithstanding that the information does not relate to any crime, fraud or other misconduct.

(4) When balancing the public interests involved for the purposes of subsection (1) the court shall have regard to all the circumstances of the case, including--

(a) the extent and nature of the particular disclosure or use in question as compared with the extent and nature of the disclosure or use which appears to be justified by the public interest on which the defendant relies;

(b) the manner in which the information was acquired by the defendant and (in the case of an obligation of confidence under section 6) the manner in which it was acquired by the original and any subsequent acquirer of it; and

(c) the time which has elapsed since the information originally became subject to the obligation of confidence owed by the defendant or (in the case of an obligation of confidence under section 6) became subject to the obligation of confidence by virtue of which that obligation arose.

12.--(1) Defences. In any proceedings for breach of confidence in respect of a disclosure or use of information it is a defence to prove--

(a) that, at the time of the defendant's acquisition of the information which gave rise to the obligation of confidence in

question, he was already in possession of the information, or

(b) that he subsequently came into possession of it by independent means,

and, in addition, that at the time he disclosed or used the information the defendant did not, in connection with his previous or (as the case may be) subsequent awareness of the information, owe any other obligation of confidence of which that disclosure or use constituted a breach.

(2) In any proceedings for breach of confidence in respect of a disclosure or use of information it is a defence to prove that the disclosure or use was required or authorised to be made by or by virtue of any statutory provision.

(3) In any proceedings for breach of confidence in respect of a disclosure of information it is a defence to prove that the disclosure was made on such an occasion as attracts, for the purposes of the law of defamation, an absolute privilege in respect of statements made thereon.

(4) Without prejudice to the generality of subsections (2) and (3) it is a defence in any proceedings for breach of confidence in respect of a disclosure of information to prove that the disclosure was required to be made by a court in pursuance of any power to order the disclosure of information.

(5) Defences generally available in tort proceedings are, in accordance with section 10(1), available in proceedings for breach of confidence.

13.--(1) Remedies in proceedings for breach of confidence: general. The following relief may be granted by the court in proceedings for breach of confidence--

(a) an injunction restraining the defendant from any apprehended breach of an obligation of confidence (with or without, in a case to which section 15(1) applies, an adjustment order under that subsection providing compensation for the defendant);

(b) damages in accordance with section 14;

(c) an account of the profits derived by the defendant from the breach;

(d) an adjustment order under section 15(2) regulating the respective rights and liabilities of the plaintiff and the defendant in so far as the defendant is not to be restrained by injunction;

(e) an order for the defendant to deliver up or destroy anything in which the information to which the breach relates is contained.

(2) With the exception of paragraph (b), the relief mentioned in subsection (1) is at the discretion of the court.

(3) Nothing in this section prejudices any jurisdiction of the court to grant ancillary or incidental relief.

14.--(1) Damages. The damages which may by virtue of section 13(1)(b) be awarded to a plaintiff in proceedings for breach of confidence are, subject to the provisions of this section, damages in respect of either or both of the following matters, namely--

(a) any pecuniary loss suffered by the plaintiff in consequence of the defendant's breach of an obligation of confidence owed to him; and

(b) any mental distress, and any mental or physical harm resulting from such distress, suffered by the plaintiff in consequence of that breach.

(2) The court shall not in respect of the same breach of an obligation of confidence both award the plaintiff damages under subsection (1)(a) and order that he shall be given an account of the defendant's profits therefrom.

(3) The court shall not award the plaintiff any damages under subsection (1)(b) unless it appears to the court that a person of reasonable fortitude in the position of the plaintiff would have been likely to

suffer mental distress in consequence of the defendant's breach.

15.--(1) Adjustment orders. Where in any proceedings for breach of confidence--

(a) the court proposes to grant an injunction against a defendant restraining him from an apprehended breach of an obligation of confidence owed under section 6, but

(b) it appears to the court that, prior to the time when he became subject to that obligation, he incurred any expenditure in connection with exploiting the information to which the breach relates,

then, if the court thinks fit, it may (in addition to granting the injunction) make an adjustment order under this subsection requiring the plaintiff to make to the defendant such contribution towards that expenditure as appears to the court to be just and equitable.

(2) Where in any proceedings for breach of confidence the court has power to grant an injunction against a defendant restraining him from an apprehended breach of an obligation of confidence but considers that it would be inappropriate in all the circumstances to do so to any extent, the court may, if it thinks fit, make an adjustment order under this subsection for the purpose of regulating, as regards such future exploitation by the defendant of the information in question as it is not proposing to restrain, the respective rights and liabilities of the plaintiff and the defendant.

(3) An adjustment order under subsection (2) may require the defendant to pay to the plaintiff one or other of the following, namely--

(a) such sum in lieu of an injunction as appears to the court to be appropriate in all the circumstances, or

(b) a royalty in respect of the future use of the defendant of the

information in question calculated on such basis as appears to the court to be appropriate, the defendant's use of the information being for such period and on such terms as the court may specify in the order,

together with (in either case) such contribution as appears to be just and equiptable towards any expenditure which the plaintiff has already incurred in connection with exploiting the information in question and which is likely to become wasted expenditure as a result of the defendant being allowed to exploit the information in future.

(4) The court may in any adjustment order under subsection (2) determine any incidental question relating to the extent to which either of the parties is to be free to exploit the information in question.

(5) In any case where the court proposes to make--

(a) an award of damages under section 14(1)(a) in respect of the defendant's breach of an obligation of confidence, and

(b) an adjustment order under subsection (2) of this section in respect of future exploitation by the defendant of the information to which that breach relates,

the court, when determining whether to make the plaintiff an award under subsection (3)(a) or (b) of this section, and if so the amount of any such award, shall take such account of any element of that award of damages which reflects future loss to the plaintiff as it thinks appropriate for the purpose of doing justice between the parties.

(6) Any reference in this section to expenditure incurred by a person in connection with exploiting information includes expenditure incurred by him in connection with acquiring it.

16.--(1) Remedies in respect of future use of information which is no longer subject to an obligation of confidence. The court

may, if it thinks fit in the case of a defendant in proceedings for breach of confidence who has committed a breach of an obligation of confidence under this Act, grant relief under this section in respect of the future use by him of the information to which the breach relates notwithstanding that such use will occur at a time when the information has, or is likely to have, come into the public domain (and accordingly ceased to be subject to an obligation of confidence).

(2) The relief which may be granted by the court under this section in the case of such a defendant is--

(a) an injunction for such period and on such terms as appear to the court to be necessary to prevent the defendant from enjoying an advantage in the exploitation of the information in question over persons able to exploit it only as from its coming into the public domain (granted with or without, in a case to which section 15(1) applies, an adjustment order under that subsection); or

(b) an adjustment order under section 15(2), but only in respect of such period of future use by the defendant as, in the view of the court, the defendant is likely (in so far as not restrained under paragraph (a) from exploiting the information) to enjoy an advantage in its exploitation over persons able to exploit it only as from its coming into the public domain.

(3) Section 15 shall in its operation for the purposes of this section have effect as if, in each of subsections (1) and (2) of that section, for the words "an injunction against a defendant restraining him from an apprehended breach of an obligation of confidence" there were substituted "an injunction under section 16(2)(a) against a defendant who has committed a breach of an obligation of confidence".

17.--(1) Special provisions as to county court. A county court may in proceedings for breach of confidence grant

the plaintiff an injunction or a declaration notwithstanding that he does not seek any relief other than an injunction or a declaration.

(2) A county court may in proceedings for breach of confidence make an adjustment order under subsection (1) of section 15 whatever the amount required to be paid by virtue of it by the plaintiff, but shall not have power to make an adjustment order under subsection (2) of that section by virtue of which the defendant is required to pay such a royalty as is mentioned in subsection (3)(b) of that section.

18.--(1) Transmission of benefit of obligations of confidence. Subject to subsection (2), nothing in this Act prevents the benefit of an obligation of confidence under this Act from being assigned to a person other than the person in whose favour the obligation of confidence has arisen in so far as it is, in any particular case in view of the nature of the information to which the obligation of confidence relates, capable of being so assigned in accordance with the general law as to the assignment of rights.

(2) No proceedings for breach of confidence shall be brought in respect of mental distress, or mental or physical harm resulting from such distress, suffered by any person other than a person in whose favour an obligation of confidence has arisen under this Act.

(3) Any reference in this Act (whether express or implied and however worded) to the person to whom an obligation of confidence is or was owed includes (subject to subsection (2) and so far as the context so permits) a person to whom the benefit of the obligation of confidence has been assigned.

(4) In this section references to assignment include assignment by operation of law.

19.--(1) Operation of Act in relation to proceedings in contract. Section 11 (plaintiff's claim liable to fail unless upholding of confidentiality is in public interest) shall have effect in relation to proceedings for breach of contract in respect

of a breach of a relevant contractual undertaking as it has effect in relation to proceedings for breach of confidence, but with the following modifications, namely--

(a) any reference to an obligation of confidence shall be read as a reference to a relevant contractual undertaking;

(b) the reference in subsection (1)(b) to upholding the confidentiality of the information shall be read as a reference to upholding the contractual undertaking in question; and

(c) subsection (4)(b) and so much of subsection (4)(c) as relates to an obligation of confidence under section 6 shall not apply.

(2) Subject to subsection (1), any relevant contractual undertaking may be enforced by proceedings for breach of contract in all respects as if this Act had not been passed.

(3) In this section "relevant contractual undertaking" means an express or implied contractual undertaking not to disclose or use information.

20.--(1) Interpretation. In this Act, unless the context otherwise requires--

"the court" means the High Court or, subject to section 17(2) of this Act and section 39 of the County Courts Act 1959, c. 22 (which contains financial limits on jurisdiction), a county court;

"proceedings" includes proceedings by way of counter-claim, and references to a plaintiff or defendant in proceedings shall be construed accordingly;

"statutory provision" means any enactment, whenever passed, or any provision contained in subordinate legislation (as defined in section 21(1) of the Interpretation Act 1978, c. 30), whenever made.

(2) References in this Act to information in, or coming into, the public

domain shall be construed in accordance with subsections (2) to (4) of section 2.

(3) References in this Act to an obligation of confidence shall be construed in accordance with section 8, and references to the person to whom such obligation is owed shall be construed in accordance with section 18(3).

21.--(1) Supplemental. Sections 3 to 6 have effect in relation to acquisitions of information taking place before the commencement of this Act as well as to those taking place thereafter, but an obligation of confidence under section 6 shall not be owed in respect of an acquisition of information taking place before that commencement unless it would have been owed in respect of that acquisition if this Act had at all material times been in force.

(2) Section 19 has effect in relation to contractual undertakings given before or after the commencement of this Act.

(3) Sections 10(1) and 19(1) have effect, however, only in relation to a disclosure or use of information taking place after the commencement of this Act; and accordingly nothing in this Act affects any cause of action accruing before this Act comes into force.

(4) The Limitation Act 1980, c. 58 shall apply in relation to a claim for damages in respect of mental distress suffered as mentioned in section 14(1)(b) of this Act as it applies in relation to a claim for damages in respect of personal injuries within the meaning of that Act (references to "injury" and cognate expressions in that Act being construed accordingly).

(5) Nothing in this Act affects the operation of section 1 of the Law Reform (Miscellaneous Provisions) Act 1934, c. 41 (survival of causes of action against, or for the benefit of, a deceased's estate).

22.--(1) Application to the Crown. This Act shall bind the Crown, but as regards the Crown's liability in tort shall not bind the Crown further than the Crown is made liable in tort by the Crown Proceedings Act 1947,

c. 44.

(2) Without prejudice to the generality of section 21(1) of that Act (nature of relief in proceedings by or against the Crown), references in sections 15 and 16 of this Act to the granting of an injunction restraining a defendant in proceedings for breach of confidence shall, in relation to the Crown where it is a defendant in such proceedings, be read as references to the granting of such equivalent declaration with respect to the rights of the parties as the court is empowered to grant by virtue of proviso (a) to the said section 21(1).

23.--(1) Citation, commencement and extent. This Act may be cited as the Breach of Confidence Act 1981.

(2) This Act shall come into force at the end of the period of three months beginning with the day on which it is passed.

(3) This Act extends to England and Wales only.

POOR

QUALITY

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